TAX MATTERS

TAX STRATEGIES FOR YOU AND YOUR BUSINESS

SPRING 2021

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Accountancy Services

Tax Planning Tips For 2022

As the year comes to an end, now is the time to visit your accountant or tax advisor to discuss tax planning for your business in 2022.

After the many challenges that businesses may have had to face as a result of COVID-19 in 2021, business owners should be reviewing and measuring their performance in comparison to the previous year. By regularly reviewing this information, a greater understanding of the basis for tax planning and budgeting can be determined more accurately. While tax planning is a process that should be continuously managed over the year for better and more adaptive results, it's never too late to start.

This is especially relevant now as business owners need to understand the business's current ability to move forward in the current economic circumstances and plan for the future. Otherwise, past mistakes could be repeated in the future.

Here are some general tax tips that business owners can take with them into 2022.

Timing Of Expenses

An expense is an allowable deduction that is necessarily incurred in carrying on a business or for the purpose of gaining or producing assessable income. Expenses should be **recognised in the same period as the revenues to which they relate** when it comes to lodging your tax.

Most prepayments that are made now are not deductible until the period to which they relate (though some exceptions may apply). Small businesses and individuals may be able to deduct 12 months of prepayments in the year paid, as an expense.

Payments to Workers

Deductions on payments to workers (whether they are employees, contractors, directors, etc.) can only be claimed when the business has complied with their PAYG withholding and reporting obligations.

Family businesses or businesses that employ family members should be especially concerned with preparing for this, as they have additional obligations to ensure that they are correctly paying the right amount of tax. If they have received wages, or been given allowances below the tax-free threshold, they will need to be registered as a withholder and a PAYG summary provided.

Your business should already be in the position to process payments through Single Touch Payroll, as it was made mandatory for all businesses to use from 1 July 2021.

Bad Debts

Conduct a review on the debts that may be affecting your business. If any of these are unlikely to be recovered, the best course may be to write them off as 'bad' prior to the end of the financial year. You can speak with us about this process to ensure that it is performed correctly (and that you are able to do so).

Writing off bad debts can reduce your income tax, and generate a GST refund.

Bonuses

With the holiday period approaching, businesses may be considering giving their staff a bonus. It is important to remember though that bonuses are only deductible when they are actually incurred.

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Your Rights As A Taxpayer

Taxpayers need to understand when lodging an objection is the most suitable pathway to disputing the Australian Taxation Office's decision. If the ATO determines that you may have done the wrong thing when it comes to your tax (whether it is on purpose or not), they could issue you with a financial punishment or penalty. If you have the grounds to do so, you may be able to appeal or object to the decision.

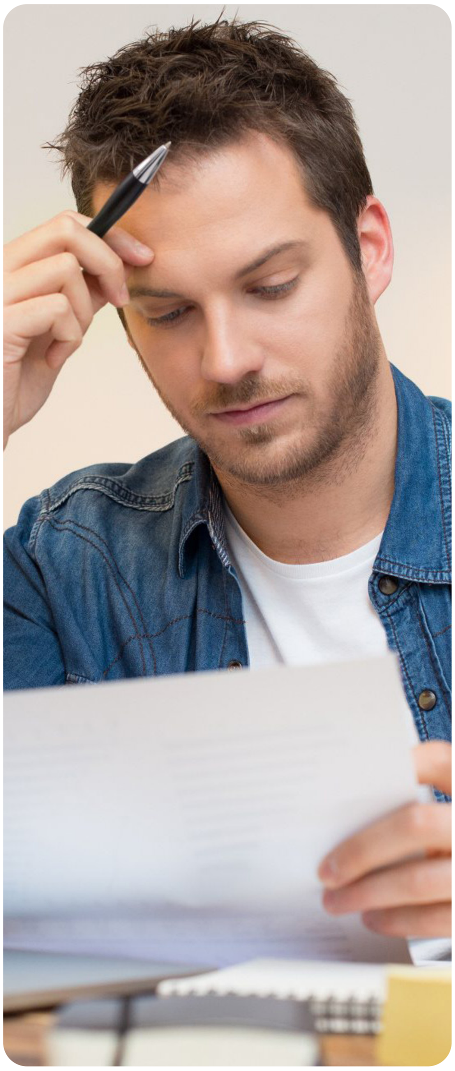
As a taxpayer, you may be able to make objections with regard to decisions made by the ATO about:

- Australian Business Numbers (ABN)
- Cash Flow Boost
- GST
- JobKeeper Payments
- Single Touch Payroll

These are only some of the tax assessments that the ATO can make a decision on that taxpayers can object to. These objections must be made within the time limit (which can vary from 60 days to up to four years).

If you wish to make an objection to a decision made by the ATO, you can engage with a registered tax agent (such as us) to work out the best means to do so, and the grounds of the objection.

Tax Red Flag: Undeclared Foreign Income



Businesses and individuals may receive income from a variety of sources, be they local, national or even international. Even with international borders remaining closed, many people may find that their income is coming from overseas (such as through sales, rental income or other sources).

However, all income needs to be assessed to determine if you will need to pay tax on it or not.

The Australian Taxation Office (ATO) is concerned about taxpayers failing to disclose assessable income (funds received from overseas) that are reported instead as gifts or loans.

This unreported or incorrectly reported accessible income may include:

- overseas employment or business income
- interest from foreign financial institutions or loans
- dividends from foreign companies
- a capital gain on the disposal of a foreign asset (such as shares in a foreign company)
- deemed amounts of foreign income in relation to interests in foreign companies or trusts.

Sometimes taxpayers and their advisors may try to get creative with how they avoid this assessable income being reported correctly. This may involve labelling or reporting it as a gift or a loan, which may result in different taxable consequences.

Accepting a gift or loan from overseas isn't wrong to do, especially if you report it correctly. Mislabelling foreign income and capital gains as such, however, is a major red flag for the ATO.

This can result in significant penalties though (of up to 90% of the amount plus shortfall interest), as well as a risk of criminal prosecution and penalties under criminal law for both the taxpayer and their advisor.

If you have concerns about compliance when it comes to foreign income and misclassifying it as a gift, you need to speak with a registered tax agent as soon as possible. You may also wish to conduct an independent review with their assistance to determine what may be a risk to your assessment as well as how you can mitigate and proceed with tax planning to accommodate them. Start a conversation with us if you are expecting to receive foreign income during this financial year.

2021-22 Tax Deductions For Small Businesses

Small businesses may be looking at ways to subsidise or reduce the amount of tax that they will have to pay in the 2021-22 financial year.

If you are a small business, you may be able to claim back on:

- The immediate deduction of assets costing less than $150,000
- A reduced corporate tax rate of 26% for companies or a 13% discount up to $1,000 for unincorporated businesses
- Simplified trading stock rules, including choosing not to do a stocktake if you estimate that your trading stock's value has not changed by more than $5,000 over the year
- Any immediate deductions for certain prepaid business expenses costing less than $1,000
- Any immediate deductions for certain business start-up costs
- The exemption or reduction on capital gains tax from the sale of a business, based on ownership period and age.

For more information about what your small business could claim back on, speak with us today.

Gift Of Giving Is Tax-Deductible

It's coming close to the season of giving, and Australians might be looking to pay it forward to those in need. Making a charitable donation is a great way to round out the end of the year, and boost the deductions that you'll be able to make in next year's return.

It's also for a good cause. In order for a donation be tax-deductible, the ATO must recognise the charity as a Deductible Gift Recipient (DGR), and it must be a genuine gift. You will not be able to benefit from the donation if you receive a benefit from it (e.g. a raffle with a prize will not count, even if the proceeds go to a charity).

Before you start your gift of charitable giving this holiday season, you should check:

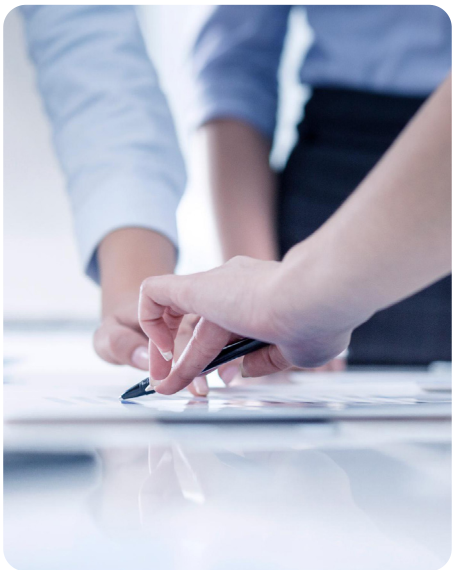
- If the charity is a deductible gift recipient organisation
  - » You might want to donate money to a church - however, this will only be deductible if the church is a registered DGR. Otherwise, it's nondeductible.
- If the donation made to the charity will be tax-deductible
  - » The charity's website should inform you whether or not the amount is partly or fully deducible, but if you are still not sure that it can be claimed as such, contact the charity directly.
- That you will not receive anything in return for the donation. Benefitting from a donation (ie. raffles, dinner attendance, event entry, chocolates etc.

After making the deduction, be sure to:

- Keep records of every donation. These will be required by your accountant when it's time to lodge your return - and you don't want to miss out on claiming a deduction with them.
- You can also keep note of all of the charities that you donate to (especially if you make recurring donations) as you may be able to request a record of your donations from them. This may take time, so you'll want to get this process underway before tax time.
- Save your receipts - the ATO needs eligible proof of your donations to claim them back as deductions. Charities should always provide receipts after a donation has been made, so be sure to save them somewhere you won't lose them.

If you want to look into other deductions that you could be claiming back this coming holiday season, you should start a conversation with us as soon as possible.

Single Touch Payroll Phase 2 Deadline Approaches



Is your business meeting its Single Touch Payroll requirements? The mandatory start date for businesses to be using STP software is fast approaching, and the ATO is urging businesses to ensure that they are meeting their obligations beforehand.

Phase 2 of Single Touch Payroll is expected to commence from 1 January 2022. In this phase, additional information (including a breakdown of gross amounts and income types) will need to be reported to the ATO each payday. It will subsequently be shared with Services Australia in an effort to reduce employers' reporting obligations to multiple government agencies.

If the payroll solution that you use is ready by 1 January 2022, your business should start Phase 2 reporting. One important concession from the ATO is that your business will be considered to be reporting on time if Phase 2 is started before 1 March 2022. Remember, a registered tax agent like us can assist you with meeting your STP obligations.

Cryptocurrency & Tax

The popularity of the digital currency known as crypto often leads to many questions when it comes to tax time. However, it's encouraged that you speak with your accountant about your obligations as soon as possible, so that you can be prepared for what you are expected to do.

Cryptocurrency isn't a foreign currency, despite the name. That's a myth that the ATO has spent considerable time dispelling, as taxpayers fail to understand the taxable consequences.
The ATO classifies cryptocurrencies as property, specifically as a capital gains asset.

This means that it is taxed under Capital Gains Tax provisions, where a taxpayer makes a capital gain from the disposal of cryptocurrency if the proceeds/profit exceeds what the cryptocurrency originally cost the taxpayer. It must be reported in their assessable income.
If the taxpayer does not make a profit, and instead receives a loss for the sale they will need to report that instead in their assessable income.

There is a commonly held belief that the gains from cryptocurrency if the costs for acquiring the asset was less than $10,000 are tax free. This is not the case. In very limited circumstances, a cryptocurrency gain that is less than $10,000 may be classified as a personal-use asset rather than as a capital gains asset. This exemption is usually determined by the Australian Taxation Office's private rulings according to strict criteria.

Any income that is derived from the sale or purchase of Bitcoin as an exchange service must be included in the assessable income reported in the tax return lodged at the end of the financial year.

The best way to be certain that all of the potential assessable income resulting from cryptocurrency is recorded in next year's tax return is to maintain immaculate records. You will need to ensure that a record is kept of:

- The date of each transaction
- The amount in Australian dollars at the time of the transaction (which can be taken from a reputable online exchange)
- Details of the transaction,
- Any associated expenses, like fees and commissions, and
- Details of the other party (the bitcoin public address is enough).

If you have been involved in the acquisition or selling of bitcoin, and want to be sure that you're prepared for next year's tax return, start a conversation with us about your obligations and potential tax liabilities sooner rather than later. If the circumstances around your tax liability change, it will put us in a better position to assist you.

NANE & COVID-19 Support Payments

This year's tax return may need to be adjusted as some of the COVID-19 support payments to businesses and individuals has been reclassified as **non-assessable non-exempt (NANE) income** by the government.

With the reclassification of the payments as NANE income, this means:

- The payment is a non-taxable payment
- The payment does not need to be included in your tax return.

This is not the case for all COVID-19 support payments. NANE classification of the payments will only be applicable if the payments are received under an eligible grant or support program, and the eligibility criteria are met.

Currently, there are two types of government grant and support programs under which COVID-19 payments to support businesses may be NANE. These include:

- State and territory grants relating to the recovery from COVID-19
- Australian Government support payments established under the COVID-19 Business Assistance Program.

Are you a recipient of a COVID-19 payment or assistance grant who may need to amend your tax return for the previous financial year as a result of the reclassification? Consult with us about your best course of action.