Important End of Financial Year 2020 - Information for Individuals

(Please also read the Information for Businesses if you are a sole trader)

TAX PLANNING TIPS (& TRAPS)

1) Superannuation Measures

You may wish to **make concessional superannuation contributions (**including salary sacrifice arrangements**)** before 30 June in order to save tax and to boost your retirement savings.

The current concessional contribution cap is $25,000 for all age groups.

Note that in order to make contributions and due the New Single Touch Payroll reporting and the ATO Super Clearing house requirements, all payments need to be made before **20 June** in order to allow sufficient time for the relevant clearing house to receive the payment and disburse the contribution to the nominated superfund. Noting that in order to be considered a deductible contribution in FY20, the payment must have reached the superfund's bank account by 30 June 2020.

2) Prepayment or payment of deductible expenses or charity contributions before 30 June

Where possible consider bringing forward some expenses before 30 June to reduce your taxable income by claiming a tax deduction in the current financial year.

In some instances you may be able to **prepay expenses** such as interest, rent, work expenses, professional memberships and insurances for future periods.

You may also wish to make a donation to a registered charity before 30 June.

3) Shares and capital gains

The ATO continues to build its data matching capability which includes comparing listed stock exchange share or Trust transaction data against gains declared by individuals in their tax return.

The current program is collecting information on over 61million transactions.

If you have sold shares, it's important that the income from the sale is declared in your income tax return.

DEDUCTIONS AND ONGOING ATO FOCUS AREAS

1) Work related deductions

To claim a deduction, you need to have incurred the expense yourself and not been reimbursed by your employer or business, you need a record proving you incurred the expense, and the expense has to be directly related to how you earn your income – that is, the expense is directly related to your work.

This also means ensuring that you only claim the work-related portion of items you use personally, such as mobile phones or internet services.

Where you do not have all invoice evidence for your claim, diary entries might help in some cases (for example for meal expenses while travelling when you are in receipt of a genuine travel allowance etc). Work related deductions continues to be an area under intense review by the Australian Taxation Office and if you claim work-related deductions, it's important to ensure that you are able to substantiate (prove) any claim you make and we recommend that you consider saving all records electronically to ensure they are available in the future as individuals need to retain records for at least 5 years.

2) Working from home

If you **don't have a dedicated work area** but you do some work on the couch or at the dining room table, you can claim some of your expenses like the work-related portion of your phone and internet expenses and the decline in value of your computer.

If **you have a dedicated work area,** there are a few more expenses you can claim including some of the running costs of your home such as a portion of your electricity expenses and the decline in value of office equipment.

If **your home is your principal place of business,** you might be able to claim a range of expenses related to the portion of your home set aside for your business. What the ATO is looking for is an identifiable area of the home used for business.

Ensure any claims are in proportion to the work related use. You can't for example claim all of your internet expenses because you do a bit of work from home in the evenings and need the internet.

What's new for FY20……working from home claim

In addition to the existing fixed rate method and actual cost method, from 1 March 2020 until at least 30 June 2020, special arrangements are in place to make it easier for individual employees 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.** This is called the 'Short Cut' method.

To use this method, you will need a record of the hours you have worked, such as a diary or timesheet.

This 80 cents per hour 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

For example, if you worked from home for **7 hours a day** on the weekdays between 1 March and 30 June 2020, that's 84 working days (in NSW) or 588 hours which results in a $470 tax deduction

3) Work related clothing

In general, you cannot claim the cost of your work clothes or dry cleaning expenses unless the clothes are occupation specific, such as chef's whites or a uniform with a logo, or protective gear because your workplace has hazards (jeans don't count as protective wear).

Unfortunately, just because you have to wear a suit to work does not make it deductible!

What's new for FY20……

The ATO are expecting to see a lower amount claimed by individuals for FY20 given that a lot of professions were working from home for 3-4 months or businesses were temporarily shut during the pandemic.

4) Motor Vehicle

You can only claim the business portion of expenses, you cannot claim for travel between a normal place of work and your home, if you have salary sacrificed your car you cannot generally claim car expenses, and if your employer has reimbursed the expense you cannot claim a tax deduction for it.

What's new for FY20……

The ATO have flagged that they are expecting to see claims for motor vehicle expenses/travel expense claims for work purposes decline in FY20 with more people working from home, working reduced hours or unfortunately not working at all so please ensure you have appropriate evidence if looking to claim work travel expenses in FY20.

Generally, most people cannot claim the cost of travelling to and from work, and working from home as a result of COVID-19 does not change this. If you are working from home because of COVID-19 but need to go to your regular office one day per week, your home-to-work travel is still private travel and cannot be claimed.

5) Earning money from the sharing economy

Income earned from the sharing economy, AirBNB, Uber, AirTasker etc., must be declared in your tax return.
You may also be able to claim proportional expenses associated to providing the service.

Ensure that any deductions you claim are related to providing the service itself (not just switching on the app or making yourself available). If you are a driver with Uber or another platform, you will need to be registered for GST regardless of how often you drive.

Let Hanrahans know as we can provide some very good cost savings on an excellent phone record keeping app as well as an online accounting file to ensure you retain appropriate and detailed records and receipts.

6) Clothing

You can only claim a deduction for expenses for occupation specific clothing, protective clothing and footwear (like steel cap boots or high-vis vests if you are in construction), uniforms (with employer/business logos or made specifically for the business).

If you are required to wear certain clothes to work but it is not a uniform (like a suit) you cannot claim the clothes or the cost of cleaning them.

What' s new for FY20......

In contrast to the ATO expecting to see a reduction in the claims for laundry or dry cleaning of work clohes, the ATO expects to see a substantial increase in people claiming for protective items required for work in order to guard the health and safety through the pandemic. Please ensure you have all receipts to support a claim for protective items should you wish to make one.

7) Travel expenses

Travel expenses are a major area of focus this tax time. If you travel for work, it will be essential that you get these claims right.

If you receive a genuine travel allowance from your employer then there are some special rules that can apply, but you still need to be able to provide evidence of the expenses you have incurred – there is no such thing as a standard deduction for travel expenses.

What's new for FY20......

The ATO are expecting to see a decline in travel expenses claimed in FY20 due to travel constraints and closure of borders domestically and internationally which has suspended a lot of normal work and business travel in the last 3-4 months

8) Self-education

Any study you claim as self-education must be connected to the income you are currently earning (either to maintain or improve your specific skills or knowledge) or is likely to result in increased income from existing income earning activities. Merely doing a course while working full-time does not make the course deductible.

RENTAL PROPERTIES

Rental properties are always high on the ATO's Review agenda and this year will be no different.

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. Common issues include:

- 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

Deliberate cases of over-claiming are treated harshly with penalties of up to 75% of the claim.

NEW FOR FY20…… 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.

We've had a number of questions from clients asking if they can access $10,000 of their superannuation in FY20 & FY21 and then recontribute the amount before the end of the financial year to claim a tax deduction.

If you have withdrawn more than you need, you can recontribute this amount under normal contribution rules.

However, if you are withdrawing superannuation with the intent to recontribute 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 recontribute 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.

Funds cannot be released to members until the Super Fund receives a release authority from the ATO enabling the withdrawal to be made.

ADDITIONAL SUPERANNUATION CONTRIBUTION OPPORTUNITIES

Non-Concessional Superannuation Contributions

For FY20, a maximum individual non-concessional cap of $100,000 applies.

For some individuals under the age of 65 it may also be possible to carry forward this cap to allow for three year's contributions to be made this tax year dependent upon your current superannuation balance.

Spouse Contributions

If your spouse's total income is less than $40,000 and you make a superannuation contribution on behalf of your spouse of at least $3,000 you may be eligible for a tax offset of up to $540.

The maximum tax offset of $540 is available if your spouse has assessable income in the 2019/20 financial year of $37,000 or less. This tax offset is progressively reduced until it reaches zero for an income of $40,000 or more. Although, you are ineligible if your Total Super Balance is $1.6 million or more.

Government Co-Contribution

If your total income is less than $53,564 and you are aged below 71 as at 30 June 2019 you may be eligible for a government co-contribution of up to a maximum of $500 for a non-concessional contribution.

The maximum co-contribution of $500 is available if you earn less than $38,564 this financial year and you have made a contribution of at least $1,000. The amount of government co-contribution will be dependent upon income and the contribution made. You are ineligible if your Total Super Balance is $1.6 million or more.

Spouse Contribution Splitting

It is possible to split up to 85% of concessional contributions (up to the concessional contributions cap) made during a financial year with your spouse, provided they are not over 65 or have reached their preservation age and retired.

The application to split contributions must generally be made before the end of the financial year immediately after the financial year in which the contribution was made. The concessional contributions will however still count towards the cap of the spouse who made the contributions.

Catch Up Concessional Contributions

From 1 July 2018, if you have a total super balance of less than $500,000 on the previous 30 June and you make or receive concessional contributions of less than the concessional contributions cap of $25,000 p.a. you may be able to accrue unused amounts for use in subsequent financial years.

FY2018/19 is the first year you can carry forward unused cap amounts and these can be used from the 2019/20 tax year. Unused cap amounts can be carried forward for up to five years.

Downsizer Contributions

From 1 July 2018 if you are downsizing your family home of 10 years or more and are aged 65 or over you may be able to contribute up to $300,000 from the sale proceeds to superannuation as a downsizer contribution.

This applies to each spouse/partner in the context of Joint ownership.

Downsizer contributions do not count towards your before or after-tax contribution caps or caps on contributions for total superannuation balance.