LPT Accountants

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May 2024 Federal Budget

On the 14th of May 2024, Jim Chalmers delivered his third Federal Budget as Treasurer. His stated intent in this budget was to fight inflation and help with cost of living pressures. There were not a lot of big announcements on the night, as most of the big ticket items had already been announced.

In this newsletter we focus on the changes that will impact individual taxpayers and small businesses. Here are some of the changes that were announced:

INDIVIDUALS

Individual Tax Rates

Stage Three Tax cuts to go ahead with revisions announced earlier this year. These revisions have already been legislated and will commence from 1 July 2024. These new rates are as follows:

Australian Resident Individual Income Tax Rates			
2023/2024		From 1 July 2024	
Thresholds	Tax Rate	Thresholds	Tax Rate
\$0 - \$18,200	0%	\$0 - \$18,200	0%
\$18,201 - \$45,000	19%	\$18,201 - \$45,000	**16%**
\$45,001 - \$120,000	32.50%	\$45,001 - **\$135,000**	**30.00%**
\$120,001 - \$180,000	37%	**\$135,001 - \$190,000**	37%
\$180,001 and over	45%	**\$190,001** and over	45%

The 2% Medicare Levy will be applied in addition to these rates, once the relevant low-income income thresholds are passed.

Foreign Resident Individual Income Tax Rates			
2023/2024		From 1 July 2024	
Thresholds	Tax Rate	Thresholds	Tax Rate
\$0 - \$120,000	32.50%	\$0 - **\$135,000**	**30.00%**
\$120,001 - \$180,000	37%	**\$135,001 - \$190,000**	37%
\$180,001 and over	45%	**\$190,001** and over	45%

HECS/HELP Debt Indexation

Indexation is applied to HECS/HELP debts on 1 June each year. In past years the Consumer Price Index (CPI) number was used to index these debts, and on 1 June 2023 a CPI rate of 7.1% was used. It was recently announced that debts were to increase by a further 4.7% on 1 June 2024.

In changes announced in the Budget, the rate used will now be the lower of the CPI or the Wages Price Index (WPI). This change will also be retrospectively applied to the June 2023 indexation and that amount will be cut to 3.2%. The indexation rate for 1 June 2024 is expected to be approximately 4.1%.

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Freeze on Deeming Rates
Social Security deeming rates will be frozen at their current levels for a further 12 months until 30 June 2025. This is being done to support age pensioners and other income support recipients who rely on income from deemed financial investments, as well as their payment, to manage cost of living pressures.

ATO Commissioner's discretion for resurrected tax debts
Recently, the ATO has been publicly criticised for 'resurrecting' old tax debts which had previously been placed on hold as being 'uneconomical to pursue'. The Commissioner will now be given a formal power to use their discretion to not use a taxpayer's refund to offset old tax debts, where the Commissioner had put that old tax debt on hold prior to 1 January 2017. This discretion will apply to individuals, small businesses and not-for-profits, and will maintain the Commissioner's previous administrative approach.

Superannuation on Paid Parental Leave (PPL)
The Government will begin to pay superannuation on Government-funded Paid Parental Leave (PPL) for births and adoptions on or after 1 July 2025.
The Government also recently legislated changes to the PPL rules to add two extra weeks entitlement over the next three years. From 1 July 2024, families will have access to up to 22 weeks of PPL. This will increase to 24 weeks from 1 July 2025 and 26 weeks from 1 July 2026.

Commonwealth Prac Payment
From 1 July 2025, tertiary students undertaking supervised mandatory placements as part of their nursing (including midwifery), teaching or social work studies, will be entitled to receive a new 'Commonwealth Prac Payment' of $319.50 per week. This payment is intended to help alleviate the significant financial impact of mandatory placements and increase retention in courses for careers in sectors experiencing shortages.

BUSINESS
Instant Asset Write Off
The instant asset write-off concession will be extended for another 12 months. This will allow small businesses (with a turnover of up to $10 million) to immediately deduct the full cost of eligible depreciating assets costing less than $20,000. To be eligible the asset must be first used, or installed ready for use, prior to 30 June 2025.

Unpaid super in bankruptcy and liquidations
The Government intends to 'recalibrate' the Fair Entitlements Guarantee Recovery Program to pursue unpaid superannuation entitlements owed by employers in liquidation or bankruptcy.

Supporting Small Business
The Government has announced funding for the following initiatives which support small businesses:
- increased resourcing for the Payment Times Reporting Regulator so that it can deliver its expanded functions, which include naming slow paying businesses
- extending the NewAccess for Small Business Owners program and the Small Business Debt Helpline
- improving the Franchising Code of Conduct sector and making it easier for small businesses to operate in the sector
- expanding the service offering of the Australian Small Business and Family Enterprise Ombudsman which helps small businesses resolve disputes.

$325 Energy Rebate for Eligible Small Businesses
The Energy Bill Relief Fund that was rolled out in 2023-24 has been extended and expanded to provide energy bill relief certain eligible small businesses. From 1 July 2024, the Government will provide a $325 electricity bill rebate to around 1 million eligible small businesses. The $325 will be applied in quarterly instalments over the 2024-25 year as credits on the entity's electricity bill.

PREVIOUSLY ANNOUNCED CHANGES THAT ARE YET TO BE LEGISLATED

When reviewing the budget announcements, what is sometimes of more interest is what is not mentioned. There are quite a number of previously announced reforms that are still before Parliament. It is still good to be aware of these as they will have a great impact if they do indeed make it into legislation.

Small Business Energy Incentive

This was proposed just prior to the last Budget in April 2023. The incentive was meant to provide small and medium businesses with access to a bonus deduction equal to 20 per cent of the cost of eligible assets or improvements to existing assets that support electrification or more efficient energy use. This included things like electrifying their heating and cooling systems, upgrading to more efficient fridges and induction cooktops or installing batteries and heat pumps. Under the proposal, eligible assets or upgrades needed to be first used or installed ready for use between 1 July 2023 and 30 June 2024.

"We've been playing for 27 hours and none of us has been able to afford a house yet"

Payday Super

This measure was announced as part of last year's budget, with the suggestion that employers would be required to pay their employees' superannuation contributions at the same time that they paid their wages.
A consultation paper was released back in October 2023 which suggested two alternative approaches:

- All super payments be made on payday
- All super payments be made within 8 to 13 days after payday

These changes are proposed to start from 1 July 2026, and if that does happen it will be more important than ever for employers to have good systems in place to manage their payroll and cashflow.

Denying deductions for ATO interest charges

In December 2023 the Government released its Mid-Year Economic and Fiscal Outlook. As part of this document, the Government announced it will amend the tax laws to deny deductions for ATO interest charges. This measure will mean that taxpayers will no longer be able to claim deduction for general interest charges (GIC) and shortfall interest charges (SIC) incurred on or after 1 July 2025.

Division 296 Tax on Super account balances above $3m

The Budget papers did not reveal any further details on the Government's proposal to apply an additional 15% tax on superannuation "earnings" (including unrealised capital gains) corresponding to the percentage of an individual's super balance that exceeds $3m for an income year commencing from 1 July 2025. These proposals are currently before the House of Representatives. The Senate Economics Legislation Committee published a report on 10 May 2024 with the majority recommending that the Bills be passed but the Coalition and Greens Senators did not support the Bills in their current form.

OTHER INTERESTING TAX RELATED ITEMS

Some of you may find it odd to see the words interesting and tax in the same sentence. Nevertheless, here is a collection of interesting items and some answers to common questions.

Travel Expenses for Fly-In-Fly-Out (FIFO) workers:
In a recent court decision, the Full Federal Court has upheld the ATO view on the treatment of travel costs for FIFO workers. The Court ruled that the FIFO travel expenses were not deductible because the travel was effectively considered home-to-work travel. One major factor in the decision was that employees did not perform employment duties until arriving at the work site.
The decision has some potential Fringe Benefits Tax implications for employers pay these costs for their employees and it will be interesting to see how they respond.

Are GoFundMe Donations Tax Deductible?
Answer….. Not always!
What donations are tax deductible?
For a donation to be tax deductible it must be made to a registered Deductible Gift Recipient (DGR). A DGR is an organization that is formally registered with the Australian Charities and Not-For-Profits Commission (ACNC). Another requirement is that you should not be receiving anything of monetary value in return for the payment you are making. Things like buying raffle tickets or dinner tickets are not a deductible donation, even if you are buying them from a registered DGR.
Whilst a lot of money raised through sites like GoFundMe does go to registered charities, there is also a lot that goes directly to unregistered charities, or even directly to the end recipient of the fundraising. In the latter case, the donation will not be tax deductible.

Upcoming changes for community groups, sporting clubs and other not-for-profit organisations
From 1 July 2024, not-for-profit organisations (NFPs) that have an Australian Business Number (ABN) but are not registered with the Australian Charities and Not-For-Profits Commission (ACNC), will need to submit an annual NFP self-review return. This return will be submitted to the Australian Taxation Office (ATO) and requires NFPs to demonstrate their eligibility for tax exemption based on their purpose and activities. It will consist of three main sections:

1. Organisational details and revenue range
2. Eligibility Assessment to determine whether the organization qualifies for tax exemption based on its activities and purpose.
3. Summary and Declaration.

To prepare your sporting club, society, or association for lodgment, the person responsible for the organisation will need to:

- Ensure your organisation has an active ABN by searching [ABN Lookup].
- Notify the ATO promptly if there are any updates needed for the organisation's address or responsible persons' details. This ensures they have access to the account, receive important tax information, and can lodge the NFP self-review return effectively.
- Identify your organisation's main purpose and gather its governing documents.
- Complete an early [self-review] to ensure your organisation meets the eligibility criteria for income tax exemption.
- Consider setting up your myGovID and Relationship Authorisation Manager (RAM) early. This allows you to access Online Services for Business and complete your NFP self-review return electronically.

End of Financial Year Tax Planning ideas

As we approach the end of another financial year, now is the time to take a moment and consider some tax planning ideas. A small amount of time and effort now might result in a big tax saving later on.

Over the next two pages, we will go through some things to consider before the end of June. Please consider these and of course let us know if you have any questions or need further information.

Individual Taxpayers (Employees & Investors)

Superannuation

Individual taxpayers can potentially claim tax deductions for personal contributions they make to their superannuation fund. These contributions are subject to certain limits and the deduction can only be claimed in the year that the contribution to superannuation is made. To be able to claim a tax deduction for a superannuation contribution, for the 2023/2024 financial year, the contribution must be paid to your superannuation fund (and processed by the fund) prior to 30 June 2024.

Prepaying Expenses

If you have work-related or investment related expenses, that are due or needed in July, August or September, then you might wish to consider bringing those payments forward so that you can claim the deduction in this financial year. There are too many of these to list here, but some examples include: new compulsory or protective work clothing, professional association fees. union fees, subscriptions to investment publications and software, work related tools and equipment costing less than $300. Investors with rental properties might also consider if any repairs are needed on their properties and consider bringing forward those costs if possible.

With these types or expenses, you should only go out and buy these items if it's something that you genuinely need or can use. At best the tax saving will be 47 cents in the dollar if you are a high-income earner and on the top marginal rate of tax.

Capital Gains

If you have sold an investment asset during the year (such as a rental property or shares), you should review the purchase and sale transactions and work out if you have made a capital gain. If there is a substantial capital gain, you should then put your mind to what can be done to reduce the tax impact on that gain. This might include bringing forward expenses or making more significant contributions to superannuation, as mentioned above.

Consider a Charitable Donation

This one is pretty straight forward, but well worth mentioning. Apart from the potential tax savings, you will also be helping a needy cause.

Work from Home

If you have regularly worked from home during the year, or even just worked the odd day here or there, we can claim a tax deduction in your 2024 tax return. This can be done using the ATO's fixed rate method, where we claim a flat 67 cents per hour worked. Alternatively, we can use the actual costs method.

The important thing to note here is that the ATO are planning to closely monitor these claims. So, if you want to claim this deduction, it's important that you get your records organised ASAP. Ideally, you should keep a diary of all the hours you work at home. You should also keep track of any items you buy for your home office, like stationery, computer equipment etc.

Interest
If you have investment loans on rental properties or shares, you may wish to consider if you are able to prepay some interest in advance on those loans. Talking to your bank or financier would be the first step as they all have different rules on this. Prepaying some interest before the end of the financial year may allow you to bring forward the tax deduction into this financial year, and it may also protect against possible interest rate rises over the 12-month period.

Businesses

Prepaying Expenses
This is very similar to the prepayment of expenses for individuals, as mentioned on the previous page. Bringing forward expenditure into this financial year can generate a tax deduction in this year. Some examples of business expenses that might be prepaid include Rent, repairs, consumables, stationery, staff training and business subscriptions.

Immediate deduction for assets costing less than $20,000
In the 2023/2024 tax year, small businesses can immediately deduct the full cost of eligible depreciating assets costing less than $20,000. To be claimed in the 2023/2024 year, the asset must be first used, or installed ready for use, prior to 30 June 2024.

Delay trading in old cars purchased under former Temporary Full Expensing rules.
Any cars that were bought between 1 July 2000 and 30 June 2023 have likely been claimed in full under the former Temporary Full Expensing rules. If those cars are now sold or traded-in on a new car, there will likely be a taxable profit made equal to the sale proceeds received. To make matters worse, any new car costing more than $20,000 will need to be depreciated over a number of years, and the amount of the depreciation claim between now and 30 June 2024 will be insignificant compared to the taxable profit on the old car. This being the case, if you are considering a new car purchase, it could be worthwhile delaying that purchase until the new financial year.

Pay Employee Superannuation prior to 30 June.
To be able to claim a tax deduction for your employee's superannuation, it must be paid to their superannuation funds, and be processed by those funds, prior to 30 June. As many of the superannuation clearing houses have a cut-off date in mid-June, it is important to act quickly on this. It may be a case that an employer needs to pay the superannuation accrued up until mid-June, with the super for the last pay-run in June to be paid later on.

Defer Income
Businesses may be able to defer the tax owing on some income by delaying the issue of their invoices until after 30 June. Income from the payments will not be taxed until the following financial year. Just be careful though that this does not have a negative impact on your business cashflow.

Stocktake
All businesses that carry stock for sale should review this, on or prior to 30 June. Any obsolete, slow-moving or damaged stock should be identified by 30 June and disposed of for income purposes to receive a deduction. It is also a good time to review pricing for the year ahead.

Review Bad Debts
June is also a good time to review your customer accounts receivable and determine if you have any bad debts. There is no sense in paying tax and GST on sales where payment will never be received, so reviewing any bad debts before the end of the year is important. Any debts identified as unrecoverable should be written off as bad prior to 30 June.