LPT Accountants

your Local Professional Tax Accountants

May 2023 Federal Budget

The Federal Treasurer has recently announced the federal budget for the next twelve months. There were not a lot of big changes, which might be a relief to some. Sometimes however, it is what is not announced that is of greater interest. No mention was made of the Government's intentions regarding the Stage 3 Income Tax cuts, that are due to begin from 1 July 2024. So, for now we'll have to keep waiting and see what happens with those.

There was also no mention of the Low and Middle Income Tax Offset being extended. This tax offset resulted in up to $1,500 in extra tax refunds in the 2021/2022 financial year. Now that it has finished, the offset will not be available for the current and future financial years. Sadly, this means that a lot of you will be getting smaller tax refunds on your 2023 tax returns.

This newsletter focuses mainly on the changes affecting individual taxpayers and small businesses. Here are some of the changes that were announced:

Individuals

- **Increasing JobSeeker:** Income support payment base rates will be increased by $40 per fortnight from 20 September 2023.
- **Expanded Eligibility for JobSeeker:** The minimum age at which 'older' people qualify for the higher JobSeeker payment rate will be reduced from 60 to 55 years.
- **Energy Price Relief:** A $1.5 Billion Energy Bill Relief Fund will deliver $500 rebates to 5 million low-income households.
- **Single Parent Payment Increase:** An estimated 57,000 single parents will also be able to claim the Single Parent welfare payment benefit from September 2023, with the Government lifting the eligibility age for the youngest child in a family from 8 to 14 years.

Superannuation

- **Increased Tax on Super Earnings:** The Budget confirmed the Government's intention to apply an additional 15% tax on total superannuation balances above $3 million from 1 July 2025. If your super member balance is less than $3 million, then this won't affect you. If it is more than $3 million from 1 July 2025, then your super will be taxed 30% on its earnings, up from the current rate of 15%. We are still waiting to see exactly how the $3 million balance amount will be calculated.

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Changes for Small Business

Key Change	How This Will Affect You
Temporary Full Expensing is Ending Currently, most businesses that purchase business assets can claim 100% of its price in full, in the year that its purchased and ready for use. This will finish on 30 June 2023.	**Purchase Business Assets Before 30 June 2023** If you need to purchase a business asset and have the cashflow to do so, we recommend you purchase it BEFORE 30 June 2023 to be able to claim 100% of its cost in the 2023 year.
Small Business Instant Asset Write-Off Small businesses, with a turnover of less than $10 million, will be able to immediately deduct the full cost of eligible assets costing less than $20,000 (incl GST) that are first used or installed ready for use between 1 July 2023 and 30 June 2024.	**Lower Asset Write Off Tax Deductions** Compared with prior years, from 1 July 2023 a small business can only claim up to $20,000 as an instant write-off. Any assets that cost more than this amount will need to be depreciated over a number of years. **BEWARE!** a business that sells or trades in a motor vehicle would have 100% of its sale price included in taxable income in the year, if it's purchase was fully expensed under the old rules. Example: If a business trades in a vehicle (that was fully expensed in prior years) for $40,000 and purchases another vehicle for $60,000, the $40,000 will be included as taxable income but only a portion of the $60,000 purchase price of the new vehicle will be allowed as a depreciation tax deduction. This may result in significantly higher tax payable by the business compared with previous years.
Small Business Energy Incentive The Government is introducing a tax break to help small businesses electrify and save on your energy bills. Businesses with annual turnover of less than $50 million will have access to a bonus 20 per cent tax deduction for eligible assets supporting electrification and more efficient use of energy, from 1 July 2023 until 30 June 2024.	**Extra $20,000 Tax Deduction** Businesses will be able to make investments like: • electrifying your heating and cooling systems • upgrading to more efficient fridges and induction cooktops • installing batteries and heat pumps. Up to $100,000 of total expenditure will be eligible for the incentive, with the maximum bonus tax deduction being $20,000 per business.
Small Business Tax Lodgement Penalty Amnesty This new amnesty will apply to small businesses with a turnover of less than $10 million to encourage them to re-engage with the tax system.	**No Penalties for Certain Overdue Tax Lodgements** A small business will not be charged failure-to-lodge penalties for outstanding tax lodgements that are lodged between 1 June 2023 and 31 December 2023 that were originally due between 1 December 2019 to 29 February 2022.
Super Payable by Employers on Pay Day Currently, employers must make employee superannuation payments quarterly. From 1 July 2026, employers will be required to pay their employee's superannuation at the same time as they pay their salary and wages.	**Plan for this Additional Cashflow Requirement** While this won't begin for 3 years, you need to be aware of this and factor this into your future cashflow planning.

End of Financial Year Tax Planning ideas

As the end of the financial year approaches, 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 few 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 2022/2023 financial year, the contribution must be paid to your superannuation fund (and processed by the fund) prior to 30 June 2023.

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.

Please note that in order for your donation to be tax deductible, it must be made to a Deductible Gift Recipient (DGR), as endorsed by the ATO. Not all charities DGRs and many crowdfunding campaigns are not run by DGRs. Furthermore, in return for your donation, you can only accept items that would be considered promotional advertising for the DGR such as pens, wristbands or badges. The purchase of a raffle or art-union ticket is not considered a tax-deductible gift.

It should also be noted that a tax deduction from a donation can reduce your taxable income to zero for a given year, but you are not able to create a loss with donations.

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 of 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.

This may also include the purchase of larger items of equipment and vehicles, as these can now be claimed as an immediate tax deduction under the Temporary Full Expensing rules. This applies to businesses with an annual turnover of less than $5 billion, but the asset must be installed and ready for use prior to 30 June in order to be deductible in this 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.