LPT Accountants

your Local Professional Tax Accountants

It's the End of the Financial Year

Another financial year is almost over, and we'll soon be preparing our 2022 tax returns. The outcome of those tax returns may very well depend on actions you take now, before the end of the financial year. Putting a little thought and effort into your tax situation now, can often pay big rewards 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 2021/2022 financial year, the contribution must be paid to your superannuation fund (and processed by the fund) prior to 30 June 2022.

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 its 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.

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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.

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.

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.

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.

Company Directors – Have you applied for your Director Identification Number?

The Director Identification Number regime was introduced in late 2021, with a 12-month implementation schedule.

The Director Identification Number is a unique 15-digit number that is designed to prevent the use of fake or fraudulent director identities. The Director ID's will make it easier to trace a director's relationships across multiple companies, and hopefully eliminate their involvement in illegal activities such as illegal phoenix activity.

All Directors will be required under the law to apply for a Director ID.

It is a once-off application, and much like a tax file number, you will keep the same Director ID number for life. Individuals need to apply for their own Director ID. Accountants and advisors are unfortunately unable to apply for a Director ID on behalf of a client.

When do individuals need to apply for a Director ID?

- If you were already a director of an existing company, prior to 31 October 2021, then you have until 30 November 2022 to apply for a Director ID.
- If you become a director of a new or existing company, from 5 April 2022 onwards, you must now have a Director ID before being appointed.

You can apply for a Director ID online by going to the Australian Business Registry Services (ABRS) Website and following the instructions there.

ALL COMPANY DIRECTORS MUST HAVE A DIRECTOR IDENTIFICATION NUMBER BY 30 NOVEMBER 2022

Are You Ready? Changes to Superannuation from 1 July 2022

Two changes are about to come into effect that will alter the way businesses pay superannuation for their employees:

Removal of the $450 superannuation contributions cap

Currently, employers do not have to pay superannuation for most employees who earn less than $450 per month. From financial year 2022/23, however, this cap is being removed. This means that employers will now need to pay super for all employees over the age of 18, no matter how much they worked in a month. As a result, some employees may begin to be entitled superannuation guarantee payments for the first time.
It is also important to note, that from 1 July 2022, super will be payable to employees under 18 if they work more than 30 hours per week. This is regardless of how much they earn.

Increase of the Superannuation Guarantee to 10.5%

From 1 July 2022, the compulsory Superannuation Guarantee rate increases from 10% to 10.5% of an employee's eligible earnings.

What do employers need to do?

You should check to ensure that your payroll systems are up to date so that you correctly calculate your employees' superannuation guarantee entitlement at a rate of 10.5% from 1 July 2022. Most accounting software packages should do this for you automatically, but its always advisable to double check that first pay run in July to make sure.

If the removal of the $450 threshold means that you will need to pay superannuation guarantee for one or more of your employees for the first time, you'll need to give them a Standard Choice Form as soon as possible so that you can obtain the necessary information to make their payments. If your employee does not provide you with a choice of super fund, review the Stapled Super Fund information on the ATO website for guidance on what you need to do next. A stapled super fund is an existing super account linked to an individual employee.

Further Changes to Superannuation

The new financial year will also see changes for older Australians, and some may become eligible to make further contributions to their superannuation accounts.

From 1 July 2022, anyone aged 67 to 74 who wishes to make a non-concessional, voluntary super contribution is no longer required to meet the work test (or work test exemption) to be eligible to make the contribution. The other normal eligibility criteria such as a Total Super Balance (TSB) of less than $1.7 million and sufficient unused annual non-concessional contributions cap still apply.

It is important to note that this change only relates to non-concessional contributions where the member is **not** wanting to claim a tax deduction. For those wishing to make personal concessional contributions (and claim a tax deduction), they must still meet the work test (or work test exemption).