

# TAX MATTERS

TAX STRATEGIES FOR YOU AND YOUR BUSINESS

**BUDGET  
EDITION  
2023**

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## 2023-24 Federal Budget Announcements

*The Federal Budget was handed down on the 9 May 2023, outlining a number of changes that impact businesses, tax & superannuation.*



### Small Business Instant Asset Write-Off Returns

The instant asset write-off will return for the 2023-24 financial year (1 July 2023 to 30 June 2024). If you buy an asset to use for business purposes and it costs less than \$20,000, you can immediately deduct the business portion of the cost in your tax return. This deduction is available for each

asset that costs less than \$20,000.



### Quarterly Tax Instalments For GST & Income Tax Halved

Eligible small businesses will halve the increase in their quarterly tax instalments for GST and income tax in 2023-24. These instalments will only increase by 6 per cent instead of 12 per cent to ease the financial burden on small businesses during these economic conditions.



### Petroleum Resource Rent Tax Reforms

The Petroleum Resource Rent Tax

is to be reformed to ensure a fairer return to the Australian community from Australia's liquefied natural gas resources while providing certainty to industry and investors to support the domestic gas supply.

The PRRT is a 40% tax on the profits generated from the sale of marketable petroleum commodities above a specified rate. However, this is often reduced by the concessions for the expense of exploring and developing gas fields, which can be carried forward and deducted as tax credits against future liabilities. (cont. p2)

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### Tax Return Amendment Period To Be Extended From 2 Years To 4 Years

Previously, tax returns could only be amended up to 2 years after they were lodged. This is to be increased to 4 years.

### Lower Tax Concessions For \$3 Million Or More Superannuation Balances

From 1 July 2025, earnings on balances exceeding \$3 million will attract an increased concessional tax rate of 30 per cent. Earnings on balances below \$3 million will continue to be taxed at the concessional rate of 15 per cent.

### Superannuation Moves From Quarterly Payments To Payday

From 1 July 2026, employers will be required to pay their employees' super at the same time they pay their wages. This will enable employees to track their entitlements to ensure they are paid on time and in full.

### Paid Parental Leave Update

From 1 July this year, Parental Leave Pay and Dad and Partner Pay will combine into a single 20-week payment. This is set to be increased to 26 weeks by 2026. The threshold for the income test for the family is \$350,000 per annum.

### Medicare Levy Low-Income Threshold Increased

The Government will increase the Medicare levy low-income thresholds for singles,

families and seniors and pensioners from 1 July 2022. The increase in thresholds

provides cost-of-living relief by taking account of recent CPI outcomes so that

low-income individuals continue to be exempt from paying the Medicare levy.

## What Exactly Is A Budget Surplus?

**For the first time in 15 years, the government announced a budget surplus. But what exactly is that?**

Governments are similar to families and businesses in that they earn and spend money. A surplus is simply where a government earns more money during the year than it spends. A deficit is where a government spends more than it earns.

Over time you would want to see an equal number of surpluses to deficits, but why do surpluses occur some years and deficits in others? This is to do with Fiscal Policy. Governments can manipulate the economy by increasing or reducing their spending.

If a government increases their spending this should stimulate the economy and if they reduce it then it will slow the economy. We are currently in a cycle where the government wants to slow the economy to help reign in inflation, so it is important that they reduce their spending.

This also corresponds with what economists call **Monetary Policy** where the Reserve Bank has the ability to manipulate the economy with interest rates. To slow the economy, they increase the interest rate and to stimulate it they reduce them.

If the Reserve Bank increased interest rates and the government increased spending at the same time, then we may have the two of them working in conflict, which could see inflation and interest rates both increasing at the same time. This can have a trickle-down effect, and effect taxpayers like yourself.



## Superannuation & The Budget: What's New

*Though most of the changes to superannuation discussed during the Federal Budget had been previously announced, they are still important to keep in mind when planning your superannuation strategy for the year to come.*

As announced in March 2023, extra tax will need to be paid on the earnings associated with superannuation balances over \$3 million. This will be a tax paid by the individual based on the growth in their superannuation accounts over a year, in proportion to their total super balance over \$3 million.

For example, let's say your super is worth \$4.5 million and increases by \$600,000 for the year. As 1/3 of your super is over \$3 million, the extra 15% tax will only be applied on 1/3 of the growth meaning that it will be applied to \$200,000 of the total \$600,000. You will then have to pay 15% tax on the \$200,000, equalling \$30,000. You can pay that money yourself or release it from super to pay it.

The previous government introduced changes to what is known as Non-Arms Length Expenses ('NALE') of Self Managed Superannuation Funds. Where a fund underpays a related party for services or assets, then the fund is subject to 45% tax on either any earnings related to that expense or where you can't relate an expense to any particular earnings, it is 45% tax on all the earnings of the Fund. The amendment will limit the tax on any non-arms length expense that doesn't relate to any particular earnings to 45% at double the value of the expense.

A program will also be introduced to reduce the liabilities associated with unpaid and owed superannuation to the government.

With these changes to superannuation to take place over the next few years, it is important to discuss with a professional adviser any action you may need to take in preparation. **Start a conversation today.**



However, this measure will not come into effect until the **2026** financial year.

Businesses will soon have to pay their employee's super with each pay run. If you pay your employees weekly, you will also have to pay their superannuation weekly. This will come into effect from 1 July 2026 so that payroll systems can be altered and amended to suit the changes.



### **Don't Forget!** Pay Your Quarterly Super Before 20 June 2023

In order to qualify for a tax deduction for the 2022-23 financial year, Super Guarantee contributions must be paid by 30 June 2023. Some clearing houses can take over a week to submit the payment to the super fund, but the fund must receive the contribution before the deadline. To keep on top, the best practice may be to pay before 20 June (to allow the extra time for the clearing houses to process the payment).

## This Year's Tax Return Looks Different: Why?

*The 2022-2023 tax return may look different to your previous returns, but there's a reason - and it's probably due to an expiry date. Here are our top three reasons that your tax refund this year might not feel as bountiful as the previous year:*



### Work From Home Deductions Changed

The shortcut method that was made available during the COVID-19 pandemic and lockdowns is no longer available to claim your running expenses with (at the rate of 80 cents per hour worked). Instead, these expenses can be claimed either by using the revised fixed rate method (67 cents per hour) or the actual costs method.



### LMITO No Longer Available

The lower-middle income tax offset expired on 30 June 2022, making the 2021-22 return the final year that it

was applicable. You may notice that your tax return looks a little different this year as a result.



### Temporary Full Expensing Ceases 30 June 2023

The deadline for the expanded Temporary Full-Expensing measure has not been extended by the Federal Budget 2023-24, meaning that it will cease on 1 July 2023, and the write-off will revert to \$1,000 from that date. Businesses will likely feel a cashflow impact, as they will now need to spread depreciation deductions for assets more than \$20,000 out over a number of years rather than claim them back upfront.

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## Are You Paying Your Fair Share of Tax?

*Following the Federal Budget's announcement and released papers, the government has provided the Australian Taxation Office with more ability and provisions to catch out tax avoiders. This is to prevent an impact to the Budget by ensuring that people are paying their share of tax.*

There are particular parts of the tax law that prohibit a scheme that has a dominant purpose of

reducing tax and these laws are set to be expanded primarily around those of us that have dealings with foreign persons and foreign entities. You will no longer be able to structure your affairs to access lower foreign withholding rates or to lower your foreign taxes.

The government has announced that you will now have 4 years as a small business to amend your tax returns. Currently it is 2 years. It also also means that the Tax Office has 4 years to amend your tax returns if they decide to audit you.

The government has also provided a lot of funding to a GST compliance program. As much as \$588 million has been provided to the ATO to extend their GST compliance program, with the intent to catch those who are doing the wrong thing.

The Government will also provide \$89.6 million to the ATO and \$1.2 million to Treasury to extend the Personal Income Tax Compliance Program for two years from 1 July 2025 and expand its scope from 1 July 2023.

Worried that you may have done the wrong thing inadvertently? Speak with your tax advisor as soon as possible so that we can assist you with fixing the issue.



## Concerned About Your Student Debt?

*With a forecast interest rate increase of 7.1% to balloon HECS & HELP loans this July, many are concerned about what that could mean for their student loan balances.*

HELP debts are indexed annually to maintain their real value by adjusting them in line with changes in the cost of living as measured by the consumer price index, otherwise, they are interest-free. The indexation adjustment is made by the ATO on 1 June each year and applies to the portion of the debt that has remained unpaid for more than 11 months.



The average balance of a HECS Debt/HELP Loan is around \$22,636.



However, many students may find themselves with loans in greater excess of this amount long after finishing their studies. This is particularly the case when indexation of the loan occurs year after year.

If you're guilty of thinking about your student debt as a 'set and forget' loan, or believe you can claim back on any repayments you make, you could be in a pickle next financial year.

While it could be beneficial to invest money into paying off part of your student loan (and reducing the balance before it is indexed on the 1 July), don't be mistaken in thinking you can claim that money back on your tax return.

Educational fees are only tax-deductible if **paid via a salary-sacrifice arrangement** (where an employer pays for the fees incurred before they become a HELP debt) or if they are **incurred for self-education purposes**.

However, if you have the funds available to pay off part of your debt, it may be best to do it now to avoid an inflated addition to your debt's balance. Start a conversation with your accountant or advisor to find out the best outcome for your circumstances.



## Overclaiming Holiday Home Deductions

The Australian Taxation Office is warning those with holiday homes to be wary of what they claim (and specifically when for) regarding their properties this year.

You may need to be prepared to answer questions such as:



How many days was it rented out, and was the rent in line with market values?

Have you, your family or friends used the property?



Where do you advertise for rent, and were any restrictions placed on tenants?

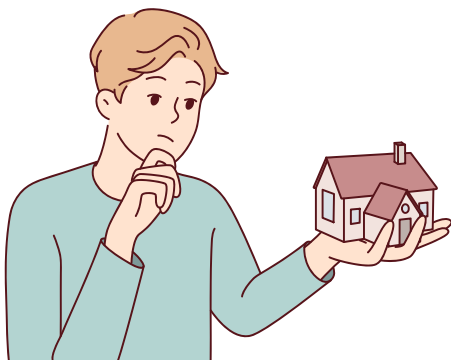
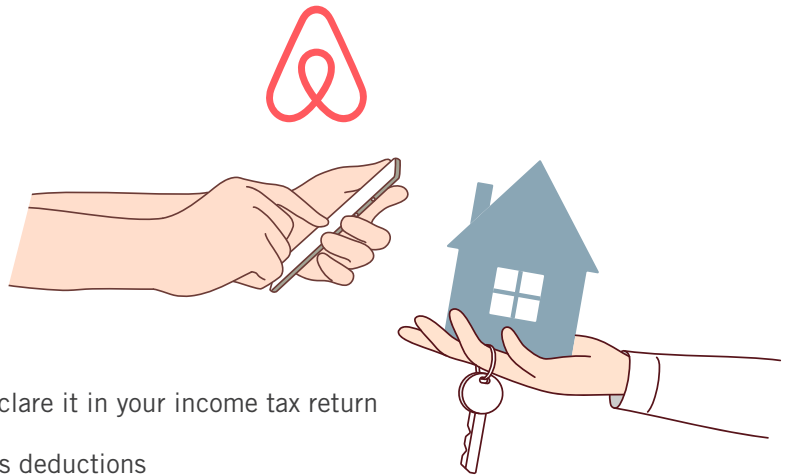


Answering questions like these can give us more information that assists us in determining if this is a valid deduction to claim.

It will be necessary to examine not only the total rent received, expenses incurred and the number of days rented or available for rent but also the timing of those rentals, the rent received over the period and the timing of the expenses.

When you rent out all or part of your residential house or unit through a digital platform, like Airbnb, Home Away or Flipkey, you:

- need to keep records of all income earned and declare it in your income tax return
- need to keep records of expenses you can claim as deductions
- don't need to pay GST on the amounts of residential rent you earn.



You will also need to determine the tax implications for the property based on the type of rent arrangements that are in place for the holiday home. Is it a vacation home for the family to stay in, or does it get rented out during the year?

## If It Is Not Rented Out

If you own a holiday home and don't rent out the property, you don't include anything in your tax return until you sell it. If you sell it, you must calculate your capital gain or loss (accurate records from purchase to sale can help).

## If It Is Rented Out

If you rent out the property, you need to include the rental income received as income in the tax return. Expenses for the property can be claimed based on the extent that they are incurred for the purpose of producing rental income.

You will need to apportion your expenses if:

- your property is genuinely available for rent for only part of the year
- your property is used for private purposes for part of the year
- only part of your property is used to earn rent
- you charge less than market rent to family or friends to use the property.

## It's Available For Part Of The Year To Return

If you rent out your holiday home and also use it for private purposes, you must apportion your expenses. You can't claim deductions for the proportion of expenses that relate to your private use or if it was not genuinely available for rent, such as when used or reserved for yourself, friends or family.

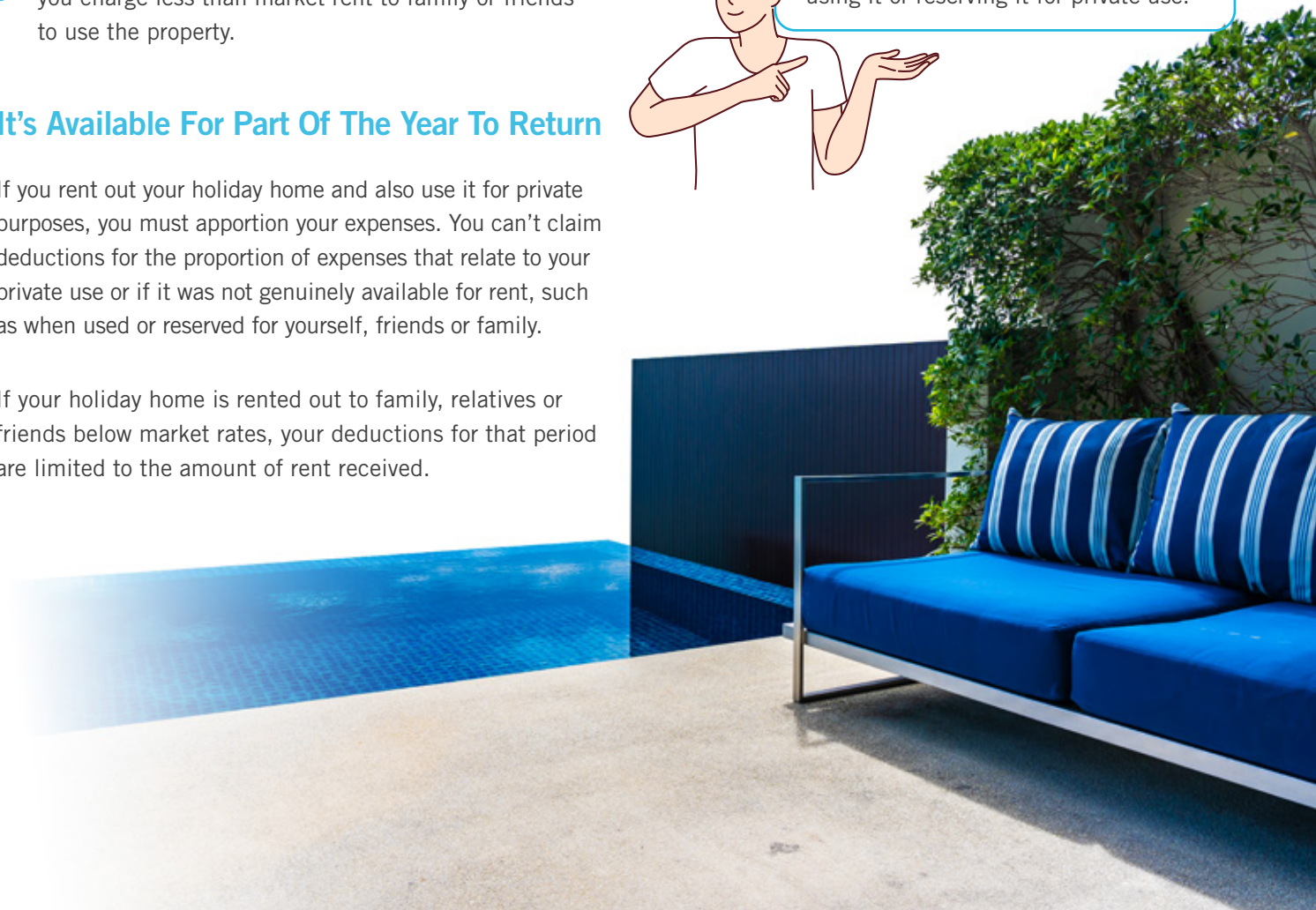
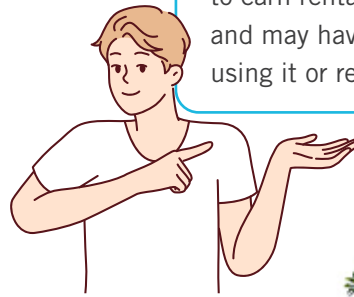
If your holiday home is rented out to family, relatives or friends below market rates, your deductions for that period are limited to the amount of rent received.

## It's Not Genuinely Available For Rent

Expenses may be deductible for periods when the property is not rented out, if the property is genuinely available for rent. There may be factors that could indicate if the property isn't genuinely available for rent, including:

- Limited advertising (such as at your workplace, word of mouth, restricted social media groups, outside annual holiday periods)
- The location, condition or accessibility of the property make it unlikely to be rented.
- Unreasonable or stringent conditions are placed on the property.
- You refuse to rent out the property to interested people without adequate reasons.

These factors generally indicate the owner doesn't have a genuine intention to earn rental income from the property and may have other purposes, such as using it or reserving it for private use.



## The Small Business Energy Incentive

*One measure that will likely brighten the outlook for small businesses across Australia is the introduction of the **Small Business Energy Incentive**.*

On 30 April 2023, the Australian government announced that small businesses (with an annual turnover of less than \$50 million) will be provided with an additional 20% deduction on spending that supports electrification and more efficient use of energy.

This incentive helps ensure these businesses share in the benefits and opportunities of the energy transition that's now underway, away from fossil fuels and towards decarbonisation. It aims to support investments that deliver ongoing power bill savings for businesses, while at the same time helping Australia lower emissions.

### The measure can be used to help small businesses make investments like:



Electrifying their heating and cooling systems



Upgrading to more efficient fridges and induction cooktops



Installing batteries and heat pumps.

For businesses with a turnover below \$50 million, up to \$100,000 of total expenditure would be eligible for the incentive with a maximum bonus tax deduction of \$20,000 per business.

Eligible assets or upgrades would need to be first used or installed ready for use between 1 July 2023 and 30 June 2024, with the measure expected to cost \$314 million over the forward estimates.

## Using Holding Companies To Avoid Tax

*Any arrangements that use interposed holding companies to avoid tax will be subject to additional scrutiny from the Australian Taxation Office and potentially subject to severe penalties.*

These may be arrangements where individuals seek to access private company profits without any additional individual tax liability by arranging for the profits to be passed to them via an interposed company

These arrangements may involve:



A private company (first company) has retained profits on which it may have paid tax at the corporate rate. Shares in the first company are held by an individual who may also be a director of the first company.



The individual disposes of their shares in the first company to a private company (interposed company), receiving shares in the interposed company in return.



The shares in the interposed company are issued at a paid-up amount being the same as, or similar to, the net assets of the first company, which includes the retained profits of the first company.



Any involvement in tax-related schemes highlighted by the ATO throughout their current warnings and notices could involve serious penalties for taxpayers and agents promoting them.