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# 2023 End of Financial Year Newsletter

Hello Everyone,

The ATO have received a massive funding boost from the Federal Government, so that they can follow through on Tax Return compliance issues. This translated into everyday language means that if the ATO can disallow taxpayers deductions claimed in their taxation returns, then taxpayers refunds will go down, and hence the Government will keep more of your money to spend on their various welfare programs etc. Welfare payments have increased massively over the past year, and they are predicted to continue to increase further over the next few years.

What this means for our clients and our accounting practice, is that we will be faced with more taxation audits, and more claimed deductions will be disallowed – often on technicalities. Listed below are some of the deductions where we expect to see the ATO pushing into these areas – not because they don't like you or your particular occupation, but because they see these deductions to be often not well kept and hence a "field day" for disallowing deductions claimed in tax returns.

1. **Motor vehicle expenses.** Many clients use their cars for small amounts of work travel and when this is below 5000km per year, claim the rate per km. This is fine provided they keep a record (diary/log book) of the travel that they incur, in sufficient detail to prove the travel to the ATO. Where you drive more than 5000km in a year, then you must keep all receipts and a log book less than 5 years old. We can give you a template to follow in this regard, but please do not 'guess' the figures when you complete the template – please be accurate, as this is one way that they can disallow your claims. Please also ensure that the receipt is in the correct financial year…

2. **Unacceptable receipts.** These may be receipts which are hard to read because they have faded, or which do not show sufficient detail to show the ATO that they were obviously a work expense. Some very smart clients take photos with their phone of all their dockets as they incur them, so that they have an electronic record – easily readable, and hopefully in sufficient detail, that they are readily acceptable. Hence if the receipt does fade over time, or is lost, you always have a backup. Bank statements or Credit Card statements are NOT acceptable to the ATO as receipts of expenditure, except in cases of periodic payments such as monthly Union Fees deducted, or car lease payments. You need to keep a 4 week log book to prove usage of mobile phone and internet for work purposes.
   The ATO know that many people are not good with their paperwork and keeping their receipts, so they are sure to target these areas.
   Often dockets for (say) work clothing/footwear simply say 'footwear' and not 'work boots' or words which are more descriptive, and even if you purchase them from an obvious work clothing store, they will not be acceptable. While you may think they are being "picky" – it works for them.

3. **Donations** are also becoming an increasing issue. Many people have previously made cash donations to collectors and often have not obtained receipts. Without a receipt you have little chance of your deduction being accepted. If you are making periodic donations through your payroll, this should not be a problem, as your pay slips can support these donations, but you should keep your payslips – or at least the last one for the financial year, which hopefully summarises your payments for the year. Raffle tickets or purchases of merchandise are not acceptable deductions. Also, most foreign charities and "go-fund-me" donations are not acceptable. If in doubt, please check with the charity concerned.

4. **Working from Home** – these rules have been completely changed as the Government found that too many people were getting deductions, and so these rules have been tightened up or changed to make these more difficult to claim. Please always keep a daily record of the hours that you work from home, and a backup letter from your employer is potentially necessary when you work from home on a regular basis – e.g. 2 days per week every week.
   Costs incurred in the home – such as cleaning, or security are not allowable as a deduction, because these expenses are on a private home (even though you may be working from the home).There is a more detailed explanation on our website.

5. **Additional Superannuation contributions.** Please remember to get the paperwork from your Superannuation consultants to confirm this is to be claimed as a deduction – without this, your legitimate payments may be disallowed. Also remember to make any last-minute superannuation payments well before the 30 June, so that they are recorded in the correct financial year – e.g. if you make a payment on 29 or 30 June, it may not go through until 1 or 2 of July, and while it will be good for next year, you will not be able to claim in the earlier year.

6. **Rental Properties.** The ATO have found that many expenses claimed against rental properties were in fact expenses on the taxpayers own home. Also (say) interest on loans were not for the rental property, but for their own home. Again please keep appropriate records of these expenses.

7. While not a deduction, the **$1080 tax rebate** (which was given to most taxpayers) has been taken away by the Federal Government. This will substantially reduce the refunds for many people this year. The Government believes that they can spend your money better than you can, and so regrettably this rebate is now gone. Also about to go is the concessional tax rate for income from funds that you have in superannuation…in the last federal budget, the treasurer tried to wash over this by saying it would not affect many people because you needed to have $3million in your super fund, but statistics show that most of our future retirees will be hit by this change….and as the amount can be changed (reduced) at any time, many of our present retired population will be affected.

8. **Capital Gains.** While properties and Shares are the major issues here, please remember other things such as cryptocurrencies, vehicles, etc. Often clients are unsure of the costs of these assets when they were first purchased many years ago, and often the records of purchase are scant or non-existent. I have always suggested creating a file/folder for every property or shareholding purchased, and then adding any relevant information as occurs over the years. Remember that only half of the capital gain is taxed if you hold the asset for more than 1 year, although the Federal Government is presently looking at changing this. Also when a property (or asset) is sole, the ATO take the contract date as the sale date, and not the settlement date. Hence if your contract date is 20 June, but the property is not settled until 20 July, the gain (and tax paid) will be in the earlier year.

## Tax information needed from you to prepare your return.

Most of you will know that we have been trying to help you, our clients, to better prepare for the annual tax return preparation, by accessing the ATO computer system (yes we are allowed to do this – we are not "hacking") to retrieve much of your income information, such as your income from wages & salaries, allowances, super contributions etc. We are also able to retrieve reported amounts that you have received from bank interest, dividends on shares, and other taxable amounts that you may have received from early withdrawals from your super funds. We can also get the amounts that you have paid into your health funds, and any HECS or HELP debts that you may have outstanding. All this is a massive help to you, and saves you a lot of work – particularly as most employers do not provide a Group Certificate or Statement of earnings anymore, and many companies do not provide you with a statement of dividends received.

There is however one catch – if you ask us to prepare your tax return in the very early part of the next financial year (e.g. July), then some of this information will not yet be available on the ATO tax portal, and we still need you to dig out all this information to be able to prepare the return. Usually from August onwards, the details flow through and is usually complete. The worst example is if you have Managed Fund investments, as these results are often not available until September. Please be mindful of this when making your appointment, as several clients are disappointed when we are unable to finish the return because of missing information.

The ATO does collect all your "income" information, however does not collect your "deductions" information – together we still need to do all of this side of things, and we ask you to please keep your records of all tax deductible expenditure for the year. In summary, you can help us to help you.

The ATO have stated that they will be looking for returns which claim the same dollar values each year, and it is very important that you do not "guess" your expenses, or ask us "to claim the same as last year"…this really is a recipe for disaster.

## Post - COVID-19 Changes

One of the very few 'good' things that came out of the last few 'Covid' years was the development of "telephone appointments". we began offering a "telephone appointment" service for all our clients, where we contacted you at appointment time, instead of you making a face-to-face appointment with us at our office. For many clients who were some distance away, or did not want to drive to our office, this was a very convenient way of preparing your returns – much better than mailing your work in. We completed your return with you on the phone, and then we sent you the completed return where you could review everything and simply click the box to insert your signature, and then e-mail it back to us…the whole signing process takes seconds, and is very easy. This was so convenient and so popular with so many clients, that we are happy to continue this again for all those who wish…a new and quick way of getting your return completed and lodged as soon as possible. When you book your appointment, remember to ask for a "telephone appointment call" from our accountants.

If you do choose the 'telephone' format, please remember to give us your mobile number when booking, so that you will be available when we call. Your 'home' phone number is not much help if you are at work when we call.

Also remember that we will call you…please do not phone us, as the accountant may not be ready at that stage to take your call, and we do not want to keep you on hold….

## Deductions

These have not really changed, however please be aware that the ATO is being much more vigilant on deductions claimed. The 'hit' areas are again motor vehicle expenses, as well as clothing and footwear costs, and other general expenditure. Expenditure of allowances received must be substantiated, and it is no longer acceptable to claim an allowance as "fully expended" without substantiation.

The golden rule is that it is still better to incur a tax deductible expense in June, than it is to incur the expense in July. This means that you can claim it NOW rather than waiting for a whole year to claim it in the future.

Of course the easy way is to keep (and summarise beforehand) all your deductions that you have incurred during the year. Some clients have used technology to their advantage, by taking photos with their phone of all their receipts during the year. This certainly makes it very easy to recall and summarise your expenses, however please do this before your appointment with us, as we will otherwise need to hold your phone (with all its photos) for a few weeks while we extract and summarise all the data for you.

Please also remember that if you are claiming expenses for a motor vehicle used for work, rental property, or a capital gain or loss on the sale of an asset, we have a number of checklists/worksheets on our website, which will help you to put everything together. These are freely available for you to download, and will ensure that you don't miss out on anything.

## A request please for all clients…

1. Please spend a few minutes before your appointment (whether it be face-to-face or telephone appointment), to go through your records and summarise everything. Last year we had a number of cases of clients with rental properties who had a list of property agent's statements, and expenses such

as rates, water, repairs and maintenance, etc., for each month, and the accountant spent most of the appointment time adding up all the receipts to get a summary of everything. This increases costs to the client, and keeps the next client waiting unnecessarily.

## Superannuation issues

Superannuation legislation has not had too many material changes, but there are a couple to note:

- The first is the catch up of concessional contributions. If you didn't use all of your $25,000 (or $27,500) concessional cap in the 2019 to 2022 financial years, and your super balance is under $500,000, the unused amount can be contributed in the 2023 (or later) financial year. You can also pay a larger 'lump sum' towards the end of the year - please don't exceed the maximum of $27,500 for the year, including your 10.5% employer contributions. !!!

- ALSO, don't forget that if you are making your own personal super contributions, to notify your Superannuation Fund that you are intending to claim your contributions as a deduction (Notice of Intent to Claim Acknowledgment Letter), so that they acknowledge your contribution and you can then claim this contribution as a deduction. The ATO will usually ask for this acknowledgment letter.

- If you are under retirement age, and withdraw funds from your superannuation, please remember that this is added to your taxable income.

All concessional contribution caps and non-concessional caps have remained unchanged. They are:

- The concessional contribution limit for the 2023 financial year is $27,500 per year regardless of your age. The "catch-up" provisions may let you exceed this limit.

- The non-concessional contribution limit for the 2023 financial year is $110,000, however this is subject to age restrictions.

- The super guarantee rate for the 2023 financial year is 10.5%, and will increase next financial year (1/7/23 to 30/06/24) to 11%. It will continue to increase each year over the next few years.

- As the compulsory superannuation deduction has been increased from 10.5% to 11% for the 2023-24 year, all employees will automatically receive an increase to their super contributions. This is on top of any salary increase that you may receive. Please be aware of this when calculating any extra superannuation salary sacrificing that you may be making.

As usual, if you should have any queries at any time during the year – and especially as you are putting together your information for the tax preparation time, please do not hesitate to ask us. Any one of our accountants will always be willing to help in any way that we can.

Happy New Financial Year….

Kind regards,

Peter & the Team.
Peter Price & Associates.

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