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CLIENT NEWSLETTER - INDIVIDUAL SEPTEMBER 2019

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It's Tax Time again!

It's that time of year again – time to pull out all your tax records and do your tax return.

This edition outlines some tax changes for 2018-19 that should be considered by individuals when preparing your tax return for 2018-19. There are also some tax tips that you may find helpful.

Tax changes for 2019

There have been some tax changes for individuals for 2018-19 in relation to:

- Low and middle income tax offset (LMITO);
- Downsizer contributions to superannuation;
- First Home Super Saver scheme (FHSS); and
- PAYG summaries (Group Certificates).

Low and middle income tax offset

In the 2019-20 Federal Budget, the Government announced it would increase the LMITO for the 2018-19 income year by increasing the base amount from $200 to $255 and the maximum amount from $530 to $1,080.

The ATO has indicated that taxpayers do not have to claim this offset. The ATO will work it out for taxpayers when their tax return is lodged.

The LMITO can reduce the amount of tax a taxpayer pays.

Downsizer contribution to superannuation

If you are selling your home, you should consider the superannuation downsizer contribution rules.

Subject to certain eligibility requirements, from 1 July 2018, individuals aged 65 years old or older may choose to make a downsizer contribution of up to $300,000 into superannuation from the proceeds of selling their primary residence.

The contract for the sale of their primary residence must be entered into on or after 1 July 2018.

There are certain reporting requirements that need to be complied with if an individual is making a downsizer contribution to superannuation.

Note! Age and work test restrictions do not apply to downsizer contributions.

First home super saver scheme

If an individual has requested the release of an amount under the FHSS scheme during the 2018-19 income year, the individual must include the following amounts in their 2018-19 tax return:

- any assessable FHSS amount; and
- the tax withheld amount.

Individuals will receive a payment summary from the ATO showing these amounts.

PAYG Summary (Group Certificates)

Many individuals will no longer receive a Payment Summary (Group Certificate) from their employer due to the introduction of Single Touch Payroll.

Individuals will find they have an 'Income Statement' through their myGov account. This

is due to employers now reporting in real time through Single Touch Payroll. However, not all employers are reporting through this system yet. It only became compulsory for smaller employers from 1 July 2019. ■

5 tax tips for individuals

A few common areas that can trip individuals up when they are preparing their tax returns are:

1. including all **assessable income**;
2. ensuring expenses claimed are **deductible**;
3. determining whether **superannuation contributions** are deductible;
4. determining **Australian tax residency status**; and
5. **keeping the right records** to support your claims.

Assessable income

Amounts that are usually characterised as assessable income include:

- salary and wages;
- bank interest;
- dividends;
- interest from term deposits; and
- rent from investment properties.

If you receive amounts in relation to the following types of activities, you may have to include the amounts in your assessable income:

- receipts from Uber;
- online selling; and
- receipts from Airtasker.

When determining whether an amount you receive is assessable income, it is important to ask the correct questions to ensure that the income is correctly classified. For example, in relation to a hobby, you need to determine if the activity is a hobby or whether it is in fact a business. Questions about the characterisation of receipts from the sharing economy are common.

Assessable income and the sharing economy

More and more people are using and providing services through the sharing economy.

The ATO describes the sharing economy as economic activity through a digital platform (such as a website or an app) where people share assets or services for a fee.

Receipts from services or assets provided through the sharing economy may need to be included in an individual's assessable income.

Common sharing economy activities include:

- ride-sourcing for a fee through platforms such as Uber or GoCatch;
- renting out a room, house or unit on a short-term basis, through platforms such as Airbnb and HomeAway;
- sharing assets such as cars, car parking spaces or storage space through platforms such as Car Next Door; and
- providing personal services such as creating websites or performing odd jobs through platforms such as AirTasker.

The ATO's position in relation to such receipts is that:

- income earned from ride-sourcing, including fares, tips and bonuses from any ride-sourcing platform (such as the Uber 'driver appreciation reward' payments), is assessable income;
- income earned from renting or sharing assets through a digital platform is assessable; and
- income earned from providing your time, labour or skills (services through a digital program for a fee) is assessable income.

Tip! If you are active in the sharing economy, you will need to consider what amounts need to be included in your assessable income. Your tax adviser can explain these issues to you and help you determine what is assessable.

Deductible expenses

Determining whether expenses are deductible can be confusing. Areas where mistakes commonly occur in relation to claiming deductions for expenses include:

Expense	General tax treatment – Note: advice is needed on the specific treatment
Work related deductions: phone, internet and professional subscription costs	These need to be expenses that are actually incurred and can be substantiated. You cannot automatically claim a $300 deduction for work related expenses.
Travel costs to/from work: claiming the cost of travelling between work and home	Generally, not deductible.
Car expenses: for a car used for work (attending meetings/conferences away from your usual work place or delivering/collecting work supplies)	If you use your car for work, you need to keep records to substantiate your claim. You will also need to apportion private and business use of the car.
Reimbursed expenses: claiming for expenses funded or reimbursed by your employer	Generally, not deductible.
Home office expenses: internet, computer, phone, stationary, lighting and heating expenses	These expenses need to be apportioned between personal and business use.
Self-education expenses: textbooks, courses, stationery and computers	These expenses must relate to your current work as an employee, not education to enable a future career change.
Capital expenses: claiming a deduction for expenses that add to the capital value of an asset	Generally, not deductible.
Donations: claiming for donations made to an organisation that is not a Deductible Gift Recipient (DGR)	Generally, not deductible.

There are many deductions that are complex and difficult to determine eligibility. One area where we often see questions being asked is rental property deductions.

Deductions and rental properties: Repairs vs improvements

What constitutes a repair? What constitutes an improvement? And when does a repair become an improvement?

It is clear that the area of deductions in respect of repairs to investment properties continues to be problematic.

In this context, it is critical to distinguish between:

- Ongoing repairs, which are deductible;
- Initial repairs, which are not deductible; and
- Improvements, which are not deductible.

If the amount in question falls into the category of initial repairs or improvements, the amount in question is not deductible. However, it would be considered as expenditure that may qualify for depreciation purposes, capital works purposes, or as part of the cost base for CGT purposes.

An amount of expenditure would constitute initial repairs if the asset was in disrepair at the time of its acquisition, and before letting out the property, the owner carried out the repairs.

What is a repair?

The more problematic issue is the distinction between repairs and improvements.

Repairs generally involve a replacement or renewal only of a worn out or broken part, or relate directly to wear and tear or other damage that occurred as a direct result of renting out the property.

Common repairs would include things like replacing broken windows, repairing electrical appliances or machinery, and replacing worn guttering and fences. It might also extend to work done to prevent deterioration, such as painting a rental property, or cleaning something which is otherwise in good working order.

What is an improvement?

By contrast, improvements go further. They fundamentally change the property that previously existed in some meaningful way rather than maintaining and merely repairing the property.

Extensive landscaping or adding a deck to a property would ordinarily constitute an improvement. To put it another way, if what has occurred is more than merely restoring what previously existed to its original condition, it is likely to be treated as an improvement and therefore not deductible.

In trying to evaluate whether an amount of expenditure is an improvement, consider the following two questions:

1. Does the expenditure give rise to a material increase in the efficiency in the functioning of the property?
2. Does the expenditure give rise to a material increase in the value of the asset?

If the answer to either of these is yes, it is likely that there is a capital improvement which is not deductible.

Some important cases where there is an improvement rather than a repair include:

- The replacement of a dilapidated ceiling with an entirely new and better ceiling;
- The replacement of a rotten wooden floor with a better, longer lasting, and more moisture resistant concrete floor; and
- The replacement of cupboards as part of the refurbishment of an entire kitchen.

Clearly, this is an area that causes much confusion and compliance can be problematic. Taxpayers need to be careful to ask the right questions and ensure their answers are properly considered with a reasonable degree of objectivity.

Residency

With the workforce becoming more and more mobile, there will be more questions about tax residency.

When determining whether an individual needs to file a tax return and pay tax in Australia, you first need to assess whether the individual is a resident for tax purposes. The test for tax residency is not the same for all Government agencies. Some taxpayers may think that they are not Australian residents when in fact they might be!

As a starting point, taxpayers should consider how many days they reside in Australia during the year. Taxpayers tend to rely on the ‘183 day’ test. However, a taxpayer that resides in Australia for less than 183 days during the financial year may still be a resident for tax purposes.

Superannuation contributions / caps

Individuals can add to their super by making their own personal super contributions to their super fund.

Personal super contributions come from your after-tax income (that is, from your take-home pay).

You cannot claim a deduction for superannuation contributions:

- paid by your employer;
- the compulsory superannuation guarantee; or
- salary sacrifice amounts.

However, certain personal superannuation contributions may be deductible.

From 1 July 2017, employees can generally claim a deduction for personal super contributions they make to their super until they turn 75.

Individuals who are aged between 65 and 74 will need to meet the work test to be eligible to claim the deduction. For the 2019-20 income tax year, there will be a one-year work test exemption. If you are over 65 and not working, you should ask about this exemption if you are considering making a super contribution.

Personal super contributions count towards concessional contributions caps. Your employers' contributions plus any amount salary sacrificed to super will also count towards concessional contributions caps. This is an extremely complex area of the tax law. Basically, the contribution caps limit the amount that can be contributed to super each financial year.

The concessional contributions cap is $25,000 for the 2018-19 income tax year. If your contributions are greater than the cap you may have to pay more tax.

There are also caps on your non-concessional contributions cap. Your non-concessional contributions include super contributions for which you are not entitled to a deduction. For 2018-19, the annual non-concessional contributions cap is $100,000 for individuals with super balances of less than $1.6 million on 30 June 2018. If you exceed your non-concessional contributions cap you may have to pay more tax. ■

Tax records

To prepare your tax return, you need to keep careful records.

Your tax records should include (but are not limited to) records to show:

- Your assessable income – i.e. payments you have received;
- Your deductions – i.e. expenses related to payments you have received;
- Acquisitions or disposals – such as shares, rental property, your main residence; and
- Tax-deductible gifts and donations. ■

Mistakes happen!

It is a reality of life that mistakes happen. It is especially true in the world of tax. The Australian tax system is complex and as a result mistakes can and do happen.

So, what should you do if you have made a mistake?

The first step is to contact us and we will be able to advise you on the best course of action to rectify a mistake.

You can make a voluntary disclosure to the ATO about the mistakes. You may also be able to amend your return. ■

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