TaxWise

Individual News

Le Cornu Lewis Hancock

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It's tax time 2018! What you need to know about the key changes

Before you complete your tax return for 2018, here are some key dates, changes and information that you should be aware of in case they affect you.

5 tax time changes that may affect you

Several new tax time-related changes have happened since last year. Here are just five of them to be aware of.

1. First home super saver scheme

The first home super saver (FHSS) scheme allows you to save money for your first home inside your superannuation fund.

From 1 July 2017, you can make voluntary concessional (before-tax) and non-concessional (after-tax) contributions into your super fund to save for your first home.

From 1 July 2018, you can then apply to withdraw your voluntary contributions to help you purchase your first home.

Note! You can only request a release of amounts under the FHSS if you are:

- 18 years old or older;
- never owned property in Australia; and

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- have not previously requested the ATO to issue a FHSS release authority in relation to the scheme.

2. Personal income tax plan

From 1 July 2018:

- The top threshold for the 32.5% bracket has increased from $87,000 to $90,000.

  This will reduce the amount of tax withheld from your pay.

- A new low and middle-income tax offset is available to individuals with a taxable income less than $125,334.

  This offset won't reduce the amount of tax withheld from your pay – it will be a one-off amount applied to your Notice of Assessment to reduce the overall amount of tax you have to pay.

3. Cryptocurrency

If you are involved in acquiring or disposing of cryptocurrency, you need to be aware of the tax consequences. These vary depending on the nature of your circumstances.

Usually, a CGT event occurs when you dispose of your cryptocurrency. If you make a capital gain when you dispose of your cryptocurrency, some or all of the gain might be taxable.

Cryptocurrency as an investment: If you held cryptocurrency as an investment, any capital gain you make would usually be taxable.

Cryptocurrency as a personal use asset: Personal use of cryptocurrency is not subject to income tax or GST in Australia. Cryptocurrency may be a personal use asset if it is acquired and kept or used mainly to purchase items for personal use or consumption. In this case, any gain you make on disposing of cryptocurrency that is a personal use asset would usually be disregarded for tax purposes.

Cryptocurrency in a business: If you carry on a business that involves transacting in cryptocurrency, the trading stock rules rather than the CGT rules may apply. In this instance, gains made on disposing of cryptocurrency would be ordinary income rather than a capital gain. However, you would first need to check whether you are carrying on business and that you are holding the cryptocurrency for sale or exchange in the ordinary course of your business before the trading stock rules will apply.

Note! The tax treatment of the gains or losses you make from disposing cryptocurrency will depend on the circumstances in which you are holding it. Your tax adviser will be able to assist you to work out the correct tax treatment of your gains and losses.

Tip!

- Everybody involved in acquiring or disposing of cryptocurrency needs to keep records in relation to their cryptocurrency transactions.
- If you have dealt with a foreign exchange and/or cryptocurrency there may also be tax consequences for your transactions in the foreign country.

4. Tax deductions for personal super contributions

Eligibility rules for claiming a deduction for personal super contributions have changed.

From 1 July 2017, most taxpayers under 75 years old (including those aged 65 to 74 who meet the work test) are able to claim a deduction for personal super contributions regardless of their employment arrangement.

5. Super contributions – changes to tax offset for spouse contributions

From 1 July 2017, the spouse income threshold increased from $10,800 to $37,000. This means that more people are eligible to claim the tax offset for the 2017-18 and future financial years.

You can claim the maximum tax offset of $540 if:

- you contribute to the eligible super fund of your spouse, whether married or de-facto, and
- your spouse's income is $37,000 or less.

The tax offset amount will gradually reduce for income above this amount and completely phases out when your spouse's income reaches $40,000.

You will not be entitled to the tax offset when your spouse receiving the contribution:

- exceeds their non-concessional contributions cap for the relevant year, or
- has a total superannuation balance equal to or exceeding the general transfer balance cap ($1.6 million for 2017-18) immediately before the start of the financial year in which the contribution was made. ■

What's on the ATO's radar this tax time?

The ATO is paying close attention to a few expenses this year. Find out what is attracting the ATO's attention.

Clothing and laundry claims

The ATO is closely examining claims for work-related clothing and laundry expenses this year.

You can legitimately claim work-related clothing and laundry if you were required to wear either a uniform that is unique and distinct to your employer, protective or occupation specific clothing.

Did you know?

- Last year, around 6 million people claimed work-related clothing and laundry expenses which totalled nearly $1.8 billion.
- Around a quarter of these clothing and laundry claims were exactly $150, which is the threshold over which taxpayers are required to keep detailed records to support their claims.

Tip!

- The $150 limit is there to reduce the record-keeping burden and is not an automatic entitlement for everyone.
- The ATO's technology and access to data is improving every year – be careful about what you claim, and always be ready to substantiate your claims!

Shares and capital gains

The ATO is also paying close attention to taxpayers who have sold or transferred shares and the amount they are reporting as capital gains. Speak to your tax adviser for more information.

Claims for work-related car expenses

The ATO is concerned about taxpayers making mistakes or deliberately lodging false claims in relation to work-related car expenses this tax time.

This year, the ATO will be particularly focused on people claiming things they're not entitled to. For example, claiming things like home to work travel or other private trips; making claims for trips that they didn't do or claiming expenses that their employer has already paid for or reimbursed.

Did you know?

- Last year around 3.5 million people made a work-related car expense claim, and together they totalled about $8.8 billion.

Note!

- The ATO uses analytics to identify unusual claims being made by taxpayers by comparing them to their peers – those who are in similar occupations, earning similar amounts of income.
- The analytics are also used to identify claim patterns. For example, the ATO were able to identify that over 800,000 people claimed exactly 5,000 kilometres under the cents per kilometre method last year.

Unusual behaviours and characteristics

Broadly, the following behaviours and characteristics may attract the ATO's attention:

- tax or economic performance is not comparable to similar businesses
- low transparency of your tax affairs
- large, one-off or unusual transactions, including the transfer or shifting of wealth
- aggressive tax planning
- tax outcomes inconsistent with the intent of the tax law
- choosing not to comply or regularly taking controversial interpretations of the law, without engaging with the ATO
- lifestyle not supported by after-tax income
- accessing business assets for tax-free private use

poor governance and risk-management systems. ■

Common lodgment mistakes and how to avoid them

According to the ATO, the most common mistakes when it comes to completing tax returns are:

1. Leaving out income, either deliberately or inadvertently

This often includes income from casual or temporary work and money earned through the sharing economy. Ensure you are including all income in your tax return and not just relying on pre-fill information.

2. Claiming deductions for personal expenses which cannot be claimed even though they may have some remote connection with work

This would include:

- Travel from home to work;
- Normal clothes which don't qualify as uniforms;
- Phone calls made that relate to their personal affairs, albeit on a phone which is also used for work-related purposes. In this case, an apportionment on a reasonable basis is almost certain to be accepted by the ATO.

3. Not having records of an appropriate kind to substantiate expenses which exceed the minimum amount for which expenses must be substantiated

This can include not obtaining an appropriate receipt or record of the expense, or not keeping receipts appropriately in case they are asked to be produced at a later time.

4. Claiming an amount for something which was never paid

There is no such thing as a standard deduction under Australian law as currently drafted. The idea that everyone is entitled to a standard deduction, usually in the amount of $300 is wrong.

In relation to an expense where substantiation is not required, because the amount in question in total is less than $300, it does not mean that a taxpayer can never be asked to prove that the expense was incurred or that it was incurred for purposes related to their work. It simply means that a detailed tax invoice or receipt is not necessary.

Note!

- The ATO can still challenge a $200 expense, in relation to which substantiation was not required, on the basis either that no expense was incurred, the amount claimed was more than the expense that was incurred, or that the expense that was incurred had nothing to do with work.
- How you go about proving the expense was incurred, its magnitude and its relevance to work will vary from case to case.

5. Claiming personal expenses for rental properties

You cannot claim a deduction for rental expenses in relation to a property where, during certain times of the year, that property is being used by the taxpayer for their personal use. In such a case, an appropriate apportionment of the rental expenses is essential.

4 golden rules to claiming work-related deductions

1. You must have spent the money;
2. The expenditure must not have been reimbursed to you either directly or indirectly;
3. The expense must be directly related to earning your income; and
4. You must have some sort of record to prove that the expense was incurred (which can be produced if asked).

Note!

- There is no such thing as a standard deduction! For example, if you claim a total of $250 as work-related expenses, you can be asked to provide evidence to show the money was spent.

If you can't provide evidence that you actually spent the money, the ATO can deny the deduction on the basis that you've failed the fourth golden rule – which is that they need a record to demonstrate that you have spent the money. This is so even though the total is less than $300. ■

Claiming deductions? Top 10 myths busted

The ATO has identified the top 10 tax myths it says are causing incorrect claims.

- Myth 1: Everyone can automatically claim $150 for clothing and laundry, 5000 kilometres for car related expenses, or $300 for work-related expenses, even if they didn't spend the money
- Myth 2: I don't need a receipt, I can just use my bank or credit card statement
- Myth 3: I can claim makeup that contains sunscreen if I work outside
- Myth 4: I can claim my gym membership because I need to be fit for work
- Myth 5: I can claim all my travel expenses if I add a conference or a few days' work to my holiday
- Myth 6: I can claim my work clothes because my boss told me to wear a certain colour
- Myth 7: I can claim my whole Netflix or Foxtel subscription because I need to keep up to date for work
- Myth 8: I can claim home-to-work travel because I need to get to work to earn my income
- Myth 9: I've got a capped phone plan, so I can claim both personal and private phone calls
- Myth 10: If I use an agent, they will take responsibility for my claims. ■

Rental property deductions – the do's and don'ts!

Do you own a rental or investment property? If the answer is yes and you are thinking of buying one, read on for the do's and don'ts, and other helpful information to help you with your tax obligations.

What expenses can you claim?

Did you know that in Australia, there are over 2 million people who claim some $46 billion in rental property deductions in their tax returns?

The lion's share of the available tax deductions is generally the interest portion of a mortgage connected with the property.

However, other costs can be claimed on an immediate basis provided that they have been incurred by the relevant taxpayer, and they have not been recouped from elsewhere, such as a payment from the tenant.

Items that can be claimed include:

- advertising for tenants;
- bank charges;
- body corporate fees and charges/strata levies;
- cleaning costs;
- council rates;

- depreciation (including certain capital works);
- electricity and gas;
- gardening and lawn mowing services;
- in-house audio/video service charges;
- insurance (including building contents and public liability);
- land tax;
- letting fees;
- pest control services;
- property agent's fees and commission;
- quantity surveyors' fees;
- secretarial and bookkeeping fees;
- security patrol fees;
- servicing costs (eg costs of servicing a water heater);
- stationery and postage costs;
- tax-related expenses;
- phone calls and rental costs;
- water rates.

What expenses can't you claim?

You cannot claim expenses which are:

- of a capital nature or of a private nature;
- related to the acquisition and disposal of the relevant property;
- body corporate payments to a special purpose fund to pay a particular capital expenditure;
- expenses which are not actually incurred by the taxpayer – eg water and electricity charges paid by the tenants;
- expenses that are not related to the rental of a property – eg expenses connected to a holiday home that is rented out for part of the year.

A few tips…

1. Keep good records and receipts!

An absence of receipts will make life difficult if an ATO audit calls for proof of the expense claimed.

2. Your property must either be rented or "genuinely available" for rental in the income year for which a deduction is claimed.

If you use the property for private purposes, you cannot claim expenses.

3. You must demonstrate a clear intention to rent out the property.

If no attempt is made to advertise the property, or the rent is set at an unrealistically high non-commercial level such that it could not on any reasonable basis be rented out, the ATO is likely to take the view that there was no intention to rent out the property, and the rental claims will be disallowed.

4. Rental expenses, in some situations, need to be apportioned.

This usually arises in the context of holiday homes, where either you or your family or friends, can stay in the property free of charge for part of the year.

To the extent that the expenses relate to that part of the year during which the property is not rented or available for rent, you are not entitled to a deduction for costs incurred during those relevant periods.

Note!

- If your property is rented to family or friends for less than arms-length market rental, the ATO may treat the arrangement as being of a private nature, and could only allow you to claim sufficient deductions to offset the rent, but not so as to make a tax loss.

5. You are no longer able to claim any deductions for the cost of travel relating to inspecting, maintaining, or collecting rent for a residential rental property.

You can only claim travel deductions if you are carrying on a business of property investing or are an excluded entity (ie a corporate tax entity, public unit trust etc).

6. **Plant and equipment depreciation deductions will be limited.**

   If residential investment properties were purchased after 9 May 2017, plant and equipment depreciation deductions will be limited only to outlays actually incurred by the investor.

Things you need to know about donating to drought relief

As the drought in Australia continues, many Australians have started donating to charities or relief funds to help those who are most in need of help. Many Australians have also started raising funds or donating through crowdfunding platforms.

Tip! There are tax implications associated with donating or raising funds. If you are planning to donate, direct your generosity to registered charities or organisations that are deductible gift recipients (DGRs) and are focussed on rural assistance.

Donating to drought relief?

Donations of $2 or more will be tax deductible only where donations are made through an organisation that is a DGR.

To claim a tax deduction for a donation or gift, it must meet four conditions:

1. The gift must be made to a DGR. Check whether your donation was made to an endorsed DGR on the ABN Lookup website.
2. The gift must truly be a gift. A gift is a voluntary transfer of money or property where you receive no material benefit or advantage.
3. The gift must be money or property, which includes financial assets such as shares.
4. The gift must comply with any relevant gift conditions. For some DGRs, the income tax law adds extra conditions affecting types of deductible gifts they can receive.

Note! You cannot claim a tax deduction for donations made to crowdfunding platforms if they are not a DGR.

What is drought assistance crowdfunding?

Crowdfunding is the practice of using internet platforms, mail order subscriptions, benefit events and other methods to find supporters and raise funds for a project or venture.

Drought assistance crowdfunding is when someone is planning to raise funds through crowdfunding platforms to assist those affected by the current drought.

If you're involved in crowdfunding – regardless of your role – you need to be aware of the tax consequences. These vary depending on the nature of the arrangement, your role in it and your circumstances.

There are usually three parties (or roles) in a crowdfunding arrangement:

1. the initiator of the project or venture or the campaign creator (who may act in a personal capacity or use a company or organisation as the vehicle to progress the crowdfunding project or venture) known as the 'promoter'
2. the organisation providing the crowdfunding website or platform, known as the 'intermediary'

3. individuals or entities that contribute or pledge money, known as ‘contributors'.

Each party may have income tax and GST obligations, depending on their circumstances and the nature of the crowdfunding arrangement.

Are you raising funds through crowdfunding?

If you are planning to raise funds through crowdfunding platforms, you need to be aware of the potential tax implications.

Payments you receive from crowdfunding platforms may be assessable income depending upon how the funds are used. For example:

- where the amounts received are used for emergency relief, such as food and clothing, then these amounts are not assessable;
- where the amounts are spent on deductible expenses, such as purchasing feed for livestock, there should be no net taxable outcome if all the money is spent on deductible expenses, as the income amounts should be offset by the deductions obtained.

This means, for most farmers, there should be no tax payable in relation to money donated to them for their farm expenses. Income tax will likely be payable should the farmer make a net business profit.

Note! Crowdfunding amounts will only be assessable if they are intended for use in the business rather than for emergency relief purposes, such as food and clothing. Check with LeCornu Lewis Hancock about the tax implications for your particular circumstances.

Tip!

- It is important to determine whether the money you receive through crowdfunding is income and whether you need to consider GST.
- If it is income, you will need to include it in your tax return and there may be deductions you can claim. Speak to LeCornu Lewis Hancock who can explain the GST requirements if you are subject to GST on transactions. ■

Attention all car owners! You must declare what you share

Do you earn income through car sharing platforms? If you do, it is important to include the income – no matter how little – in your tax return. It’s no different to anyone else renting out an asset, like a house or a car park. You must declare the income and you cannot avoid tax by calling it a hobby.

The growing popularity of third party services (eg Car Next Door, Carhood or DriveMyCar Rentals) has prompted the ATO's interest.

Note! The ATO has sophisticated systems and data to help identify where sharing platforms are being used to generate income.

Deductions that car sharers can claim

The good news is that individuals who rent their vehicle are entitled to claim some deductions. The expenses claimed must relate directly to the renting, hiring or sharing of your car, and accurate records such as receipts must be maintained to back up all claims.

Car sharers can claim deductions for expenses like:

- platform membership fees;
- availability fees;
- cleaning fees; and
- car running expenses.

However, a deduction can only be claimed for cleaning and running expenses if you are responsible for them under your car sharing agreement. For example, different agreements require either the car borrower or the car owner to bear the costs of refuelling the car.

Do you use your car for private travel?

If you use your car for your own private travel, you will need to exclude all the related costs.

If you own a car jointly, you will need to declare income and claim expenses in proportion to your share of ownership. You must declare the income and claim the deductions in proportion to your ownership interest.

Note! You cannot claim for expenses related to a car that you salary sacrificed.

Tip! Keep good records to help ensure you declare the right amount of income and have evidence for claims made. Your sharing platform should be able to provide you with accurate records of the income and the kilometres travelled for sharing purposes, which would form a good basis for your deductions.

Renting or hiring your car and GST reporting

If you are registered for GST, you must account for it on the extra income you have earned. If you are not registered for GST but your turnover from all of your enterprises is $75,000 or more per year, you need to register for and report GST.

If you report GST, you should also be able to claim credits on the GST included in the price for things you purchase for renting or hiring your car. ■

Key tax dates

Date	Obligation
21 Sep 2018	Aug monthly BAS due
22 Oct 2018*	Sep monthly BAS due
29 Oct 2018*	Sep quarter SG due Sep quarterly BAS due Sep quarter PAYG instalment due
31 Oct 2018	2018 income tax return due
21 Nov 2018	Oct monthly BAS due
28 Nov 2018	Sep quarter SG charge statement due
21 Dec 2018	Nov monthly BAS due

* Actual due date falls on a Sunday.