W Wen & Co
Chartered Accountants and Business Advisors

2024 Financial Year-End Success:

Essential Planning Guide

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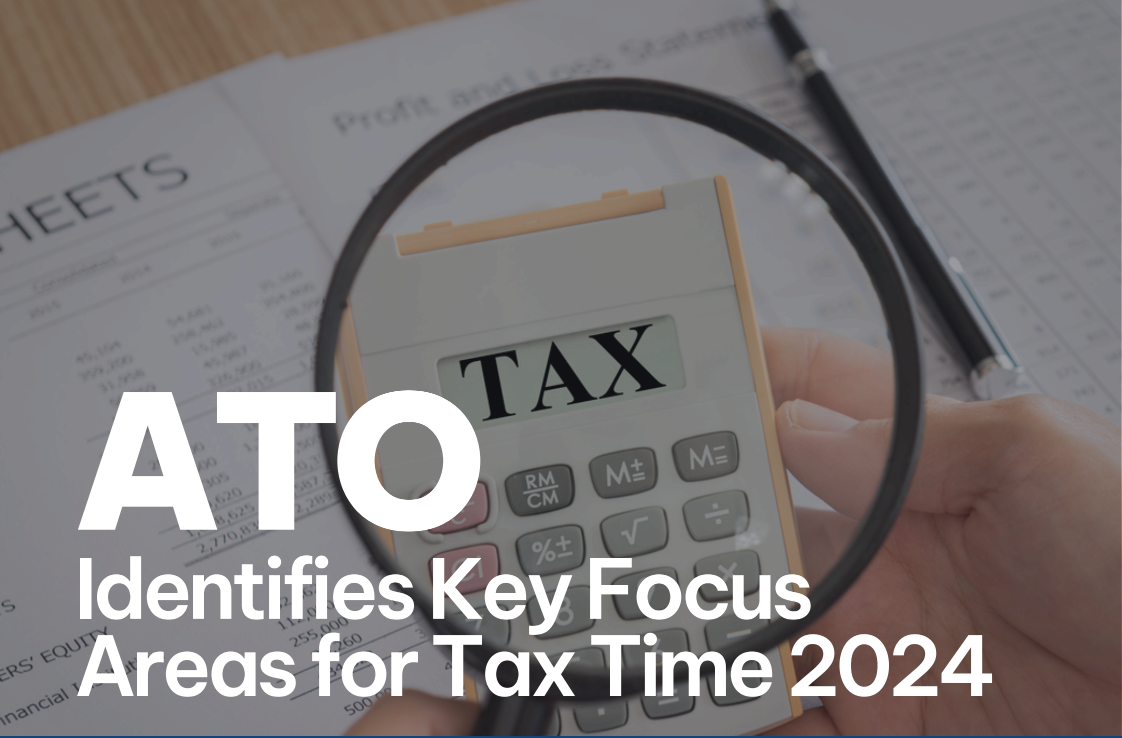


ATO Identifies Key Focus Areas for Tax Time 2024

As 'tax time' approaches, the ATO has announced it will be focusing on three common errors made by taxpayers:

- Incorrectly claiming work-related expenses
- Inflating claims for rental properties
- Failing to include all income when lodging

Work-Related Expenses

In 2023, over 8 million people claimed work-related deductions, with around half relating to working from home. The ATO revised the fixed rate method for calculating working from home deductions, expanding what is included, increasing the rate, and adjusting record-keeping requirements.

These changes are now fully in effect for this financial year, meaning you must have comprehensive records to substantiate your claims as you would for any other deduction.

To use this method, you need records showing the actual number of hours worked from home (such as a calendar, diary, or spreadsheet) and the additional running costs incurred (such as electricity or internet bills).

"Deductions for working from home expenses can be calculated using either the actual cost or the fixed rate method. Keeping good records gives you the flexibility to use the method that works for you and claim the expenses you are entitled to," said ATO Assistant Commissioner Rob Thomson.

"Copying and pasting your working from home claim from last year may be tempting, but this will likely result in us contacting you for an explanation. Your deductions will be disallowed if you're not eligible or don't keep the right records," he added.

Remember the three golden rules for claiming any work-related expense:

1. You must have spent the money yourself and were not reimbursed.
2. The expense must directly relate to earning your income.
3. You must have a record (usually a receipt) to prove it.

To assist you in keeping a record of the total number of hours worked from home using the revised fixed rate method of $0.67 per hour, we have prepared the [2024 Working From Home Diary template.]()

Rental Properties

Rental properties remain a focus area for the ATO, with 9 out of 10 rental property owners getting their income tax returns wrong.

"This year, we're particularly focused on claims that may have been inflated to offset increases in rental income to get a greater tax benefit," Mr. Thomson said.

General repairs and maintenance on rental properties can be claimed as an immediate deduction. However, capital expenses (such as initial repairs on a newly purchased property and improvements during the time you hold the property) are not deductible as repairs or maintenance.

You can claim an immediate deduction for general repairs, like replacing damaged carpet or a broken window. However, capital improvements, such as installing a new kitchen, are only deductible over time as capital works.

The reporting of rental income and deductions can be complex. To enable us to assist you in claiming correctly, please provide full and complete records.

Get It Right – Wait to Lodge

The ATO is also advising against rushing to lodge your tax return on 1 July. If you have received income from multiple sources, wait until this is pre-filled in your tax return before lodging.

"We see many mistakes in July where people have forgotten to include interest from banks, dividend income, payments from other government agencies, and private health insurers," said Mr. Thomson.

For most people, this information will be automatically pre-filled in their tax return by the end of July, making the process smoother, saving time, and helping ensure accuracy.

"By lodging in early July, you double your chances of having your tax return flagged as incorrect by the ATO," he added. "You can check if your employer has marked your income statement as 'tax ready' and if your pre-fill is available in myTax before lodging. This way, an amendment doesn't need to be made later, which could result in unnecessary delays."

If you have any complicated tax matters when preparing your tax return, our tax consultants at W Wen & Co Chartered Accountants are here to help. Please call us at 02 9871 3429 to ensure your tax return is accurate and compliant with the latest ATO guidelines.

Avoid Costly Div 7A Mistakes: Strategies to prevent Division 7A errors

Navigating Division 7A rules is crucial for small businesses and private groups accessing money and benefits from their private companies. Here's what you need to know:

What is Division 7A

Division 7A is a rule that prevents private company profits from being provided to shareholders or their associates tax-free. It does not apply to payments of salary and wages, director fees, fringe benefits or ordinary dividends, but has broad applications to all other payments and benefits. When it applies, the recipient of the loan, payment or other benefit will be deemed to have been paid an unfranked dividend that will be included in their assessable income.

ATO warning on Division 7A common mistakes

- incorrect accounting for the use of company assets by shareholders and their associates
- loans made without complying loan agreements
- reborrowing from the private company to make repayments on Division 7A loans
- an incorrect benchmark interest rate applied on a Division 7A loan.

Record Keeping Compliance:

Ensure annual checks confirm:

- payments or loans are fully repaid or converted to a Division 7A complying loan agreement before the company's lodgment day
- minimum yearly repayments are made on complying loans from prior years by the end of the income year.

Managing Division 7A Loans

To avoid these unexpected tax consequences, place all payments and loans that haven't been repaid on a complying Division7A loan agreement before the company's tax return lodgment date.

Complying Loan Agreement Must:

- be in writing before the company's tax return lodgment day
- have an interest rate for each year of the loan at least equal to the Division 7A benchmark interest rate
- have a maximum term of 7 years for an unsecured loan, or 25 years for certain secured loans.

Document Details:

- the identity of the parties
- the amount of the loan or amounts covered by the loan agreement
- the requirement to repay
- the agreement signed and dated by the parties.

Minimum yearly repayment (MYRs) on Division 7A loans

Repay on time to avoid unfranked dividends:

- Start repayments in the income year after the complying loan was made
- Use the correct benchmark interest rate to calculate the MYR for the current year
- Make their required payments on the loan by the due date – the end of the income year (usually 30 June).

You must ensure they can meet the required MYRs on complying loans. Missing the MYR or not paying enough in an income year will result in a shortfall in the MYR, which could be assessed to the borrower as an unfranked dividend.

Borrowing additional amounts from the same company, directly or indirectly, to make repayments on complying loans may result in the repayment not being taken into account in working out if the MYR has been made. This can also result in a shortfall in the MYR and an unfranked dividend that will be assessed to the borrower.

Remember, the benchmark interest rate used to calculate the MYR changes annually. The rate for the current income year ending 30 June 2024 is 8.27%.

Need help?

Contact us at W Wen & Co at 02 9871 3429 for more information.

Ref: ATO Website, Tax Professional Newsroom 19 March, 23 April and 19 May 2024

Trust Distributions Done Right: A Year-End Guide for Trustees

As the year-end approaches, trustees must prepare for distributions with careful consideration and adherence to regulations. Ensuring a smooth and compliant distribution process is crucial for maintaining trust and avoiding potential pitfalls. Here are key steps trustees should follow:

Review Trust Deeds and Amendments

Start by thoroughly reviewing the trust deeds and any amendments. Confirm that the trust has not vested, as this could significantly impact distribution decisions. Ensuring compliance with the deed's terms is essential for making valid decisions.

Identify Intended Beneficiaries

Clearly identify who the intended beneficiaries are and their entitlement to income and capital under the trust deed. If the trustee has made a family trust election or interposed entity election, this may have a tax impact on distribution decisions.

Notifying Beneficiaries

Notifying beneficiaries of their entitlements to allow beneficiaries to correctly report distributions in their tax returns, preventing trust income from being omitted

Follow Deed Requirements for Trustee Resolutions

Check any requirements under the deed governing the making of trustee resolutions, including the need to have the resolution in writing and the timing of when it's required to be made. Resolutions need to be made by the end of the income year.

Consider Capital Gains and Franked Distributions

Consider whether the trustee has capital gains or franked distributions they'd like to stream to beneficiaries. This should include confirming the trust deed doesn't prevent this and that trustees have complied with the legislative requirements relating to streaming these amounts.

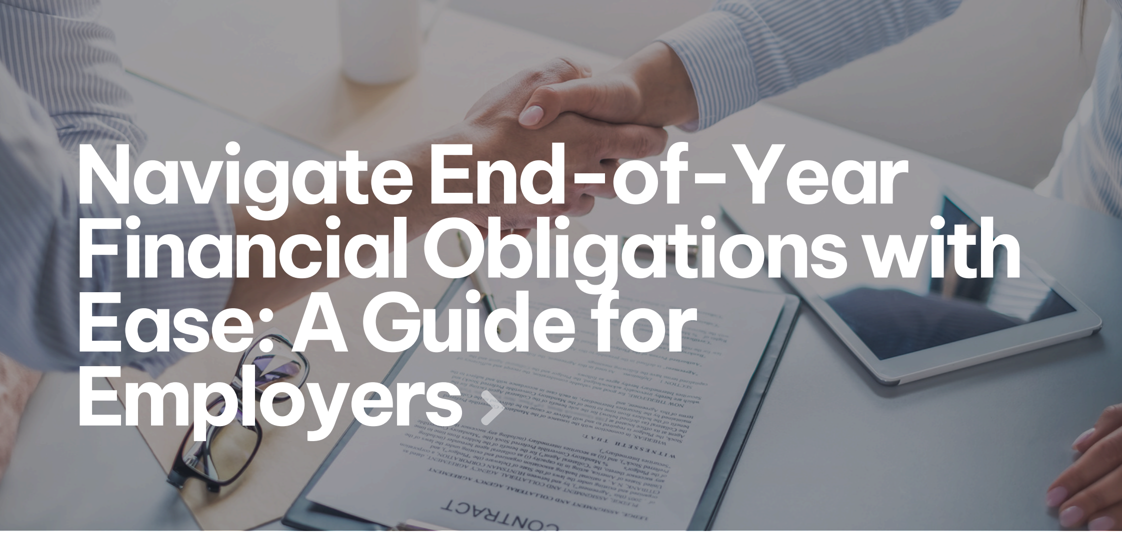
The ATO's compliance activities often identify mistakes made by trustees that are the result of not following trust deeds or not checking family trust elections.

Getting these basics right any unexpected outcomes.

Get your checklist now!

Click here to access a comprehensive checklist to ensure you're on the right track with trust distributions.

For any questions regarding tax on trust and distributions, please contact us at W Wen & Co at 02 98713429.



Navigate End-of-Year Financial Obligations with Ease: A Guide for Employers

As the financial year comes to a close, it's crucial for employers to stay ahead of their payroll governance responsibilities. Here's what you need to know to ensure a smooth transition into the new financial year:

Key Actions for Employers:

- Accurate Record -Keeping: using your tax and super software to record the amounts you pay
- Correct Tax Withholding: Ensure you are withholding the appropriate amount of tax from employee wages.
- Super Guarantee (SG) Calculation: calculating super guarantee (SG) correctly.

Critical Dates and Updates:

- Pay as you go (PAYG) withholding – From 1 July, the individual income tax rate thresholds and tax tables will change, which will impact your PAYG withholding for the 2025 tax year.
- SG rate change – From 1 July, the SG rate will increase to 11.5%. Make sure you pay your SG contributions by 28 July in full, on time and to the right fund.
- Single touch payroll (STP) reporting – Remember to make STP finalisation declarations by 14 July for all employees you've paid during the financial year. Make sure to:
- check your employees' year-to-date amounts are correct
- ensure your declaration is for the 2023-24 financial year.

If you realise you've made a mistake, fix your STP data as soon as possible and re-finalise.

Best Practices:

- Maintain rigorous record-keeping.
- Review and update payroll policies and procedures to reflect any new changes impacting your business.

For any inquiries regarding payroll, payroll tax, or other related issues, please reach out to us at W Wen & Co. We're here to help you navigate these changes smoothly.

Ensure compliance and streamline your year-end processes with confidence. Contact us at 02 9871 3429 today!

ATO Announces New Crypto Assets Data-Matching Program

The Australian Taxation Office (ATO) has released a notice for a new data-matching program targeting crypto assets for the 2024 to 2026 income years. The ATO will acquire account identification and transaction data from designated crypto service providers.

What's Being Collected?

- client identification details (names, addresses, dates of birth, phone numbers, social
- media accounts and email addresses); and
- transaction details (bank account details, wallet addresses, transaction dates, transaction times, transaction types, deposits, withdrawals, transaction quantities and coin types).

The ATO estimates that records relating to approximately 700,000 to 1,200,000 individuals and entities will be obtained each financial year.

The data will be acquired and matched to ATO systems to identify and treat clients who failed to report a disposal of crypto assets in their income tax return. The matching process "strengthens (the ATO's) ability to develop tailored treatments for clients who may not be meeting their obligations. These may include registration, lodgment, reporting and payment obligations.

Have Questions About CGT or Other Crypto Tax Issues?

Contact W Wen & Co for advice and assistance. Call us at 02 9871 3429

Ref: Gazette notice: Commissioner of Taxation – Notice of a crypto asset data-matching program - 22 April 2024

Rental Properties – Traps and Pitfalls

The Australian Taxation Office (ATO) has found that nine out of ten residential rental property investors audited have made errors in their tax returns. Here are some common tax traps and pitfalls to be aware of:

Apportionment of Rental Income and Deductions ➤

If a rental property is jointly owned, the income and deductions must be divided according to each owner's share. For example, if spouses own the property together, it's typically a 50:50 split. The spouse with the higher income cannot claim more than their share of the deductions, even if they paid for expenses from their own account.

Private Use ➤

You can't claim deductions for interest and other expenses for periods when the property was used for private purposes, like if you or a relative lived in it for no or nominal consideration.

Interest Deductions ➤

Interest on loans used to buy a rental property is deductible. However, if the loan is used partly for personal expenses (like buying a car), only the portion related to the rental property can be claimed. Be careful when refinancing to ensure the interest remains deductible.

Repairs vs. Improvements ➤

The cost of genuine repairs to fix something that is broken or worn down due to wear and tear that happened while the property was tenanted is immediately deductible. Work that involves replacing the entirety of an asset would be a capital improvement and is deductible at 2½%.

For example, your rental property might have an original 1960s bathroom, with leaky pipes and tiles that are broken or coming away. Fixing the leaks and replacing the tiles (even with something a little more modern) would fall on the repairs side of the line and be deductible outright. On the other hand, gutting the whole bathroom and replacing all the fittings with something out of Home Beautiful would be a capital upgrade and deductible at 2½ % per annum.

Initial repairs ➤

Any deductions for repairs to your rental property have to be attributable to the time you were earning rental income from the property. If you buy a property that requires initial repairs before you can put tenants in, the cost of those repairs will not be deductible. You should still keep track of the amount you've spent on initial repairs as it will trigger off a capital loss when you sell the property down the track.

Certain initial repair works may be unavoidable, but defer non-urgent work if possible. So if your newly acquired rental property is in need of a coat of paint, maybe wait two or three years before contacting a painter.

Travel costs ➤

The cost of traveling to visit your rental property to attend to things is no longer deductible. This matters especially to investors who have bought property interstate. There is an exception where an investor is in the business of letting rental properties – but very few are.

Depreciation ➤

Second-hand depreciating assets acquired as part of the rental property can't be written off against rental income, again unless you are in the business of letting rental properties. But the unclaimed depreciation can trigger off a capital loss on the eventual sale of the property. It's important to keep track of these amounts in the meantime.

Cash jobs ➤

It's not unheard of for the tradesperson offering the best quote for a repair or maintenance job on your rental property to ask for payment in cash. Before rushing in to accept such a quote, just make sure they're not keeping the job completely off the books and that you'll still be getting an invoice that satisfies the substantiation rules. Otherwise you could end up blowing your cost savings (and maybe more) because you won't be entitled to a tax deduction for the cash you've handed over.

What your tradie does in relation to his tax affairs is a matter between them and the Commissioner, but it shouldn't cost you a tax deduction. Always insist on getting an invoice.

Holiday homes ➤

Own a holiday home? Great for family holidays, but if the property is also offered for short-term rentals there are a few wrinkles you need to be aware of.

The main one is that the property needs to be genuinely available for rent, and not just at times when demand is seasonally low. So if you book the place out for yourself or family and friends for all or most of the school holidays and other peak times, the ATO will take the view that you're not seriously trying to make a profit from any rental income you receive and will limit your deductions for mortgage interest, rates and land taxes, repairs and maintenance, insurance etc to the amount of your rental income. Likewise if you only charge mates' rates when family and friends come to stay.

Some holiday house owners have even pretended to market their property by demanding excessive rents or imposing unrealistic conditions for short-term stays (eg. references, no pets, no kids). That is not likely to pass muster either.

Some limited personal use of the property is acceptable to the ATO, as long as you're genuinely trying to turn a profit. Where this is the case, the deductions claimed need to be pro-rated to reflect the time the property was let or was genuinely available for rent.

Any disallowed deductions won't be wasted entirely as they will create a capital loss on the sale of the property.

Being aware of these traps can help you manage your rental property effectively and ensure you stay compliant with tax regulations.

If you need assistance with managing your rental property taxes or have any other accounting questions, please contact our tax consultants at W Wen & Co at (02) 9871 3429. We are here to help you navigate these complexities with ease.

Not-for-Profits: Essential Update on Reporting Requirements!

Prepare Early for the New Annual Reporting Requirement

If your not-for-profit has an active Australian business number (ABN), you need to lodge a NFP self-review return to access income tax exemption. Lodgments are required to be made from the 2023–24 income year onward.

Here's what you need to know:

Key Changes and Requirements:

Lodgement Period: ➤

You can lodge the NFP self-review return for the 2023-24 financial year anytime between 1 July and 31 October 2024.

Submission Option:

- Online services for business,
- Registered tax agent

Purpose:

The NFP self-review return will guide you to consider your organisation's purpose and activities against specific requirements of an [Who needs to lodge](). This will assist you to determine the basis for which you self-assess as income tax exempt, and report this to the ATO. While you need to report using the self-review return, you will not pay tax on your income unless you are a taxable not-for-profit.

Steps to Prepare for Annual Reporting: ➤

- **Update Contact Details**

  Ensure the organisation's contact details are up to date, including ABN registration details

- **Review Purpose and Governing Documents:**

  Review the organisation's main purpose and ensure governing documents reflect current operations.

- **Set up a myGovID**

  Create a myGoveID with either a Standard or Strong identity strength

- **Link myGovID to ABN:**

  Using Relationship Authorisation Manager (RAM) to link your myGoveID to your NFP's ABN, so that you can access Online services for business.

Who Does Not Need to Lodge

- A government entity
- A charity registered with the Australian Charities and Not-for-profits Commission (ACNC) are not required to lodge an NFP self-review return. Charities already lodge an annual information statement to the ACNC each year.
- Taxable not-for-profits are not required to lodge, as they already lodge an income tax return or notify the ATO of a return not necessary each year.

Need assistance? We're here to help!

At W Wen & Co., we understand the intricacies of these new requirements and are here to support your organisation through the lodgement process. Our expert team is ready to help ensure your self-review return is completed accurately and on time.

For any inquiries or assistance, reach out to us at W Wen & Co. We're dedicated to helping you navigate these changes smoothly.

Prepare early and stay compliant with the new reporting requirements. Contact us at 02 9871 3429 for professional guidance and support.

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