

Year End Newsletter June 2023



Income Tax Changes for 2022/2023

Several tax changes apply in the 2022/23 income year. A brief summary is provided in this newsletter.

There may be some advantages in acting on some of these items before 30 June.

If you think any of these changes may affect you, please contact us for more details.



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General Year End Tax Planning Strategies

Business Income and Expenses

Subject to cash flow requirements, consider deferring income until after 30 June, especially if you expect lower income for 2023/24 compared to 2022/23.

Most businesses are taxed on income when it is invoiced. Some small businesses may only be taxed when income is received. Income from construction contracts is generally taxed when progress payments are invoiced or received.

Ensure that you have complied with the requirements to claim deductions in 2022/23:

- Bad debts must be written off in your accounts before 30 June.
- Employer or self-employed superannuation contributions must be paid to, and received by, the super fund before 30 June and must be within the contributions cap (from 1 July 2021, \$27,500 for all individuals regardless of age).
- Depreciation can be claimed for assets first used, or installed ready for use, before 30 June.
- Small businesses (turnover less than \$10m), can claim expenses prepaid up to 12 months in advance – for larger businesses, this is generally limited to expenses below \$1,000.
- Wages paid to your spouse or family members must be reasonable for the work performed.

“The Temporary Full Expensing of Assets and Temporary Loss Carry-Back measures have been extended by 12 months until 30 June 2023.”

Small businesses planning major purchases or replacement of capital equipment should contact us for advice. Careful timing of those transactions can result in substantial tax savings.

Scrap any obsolete item in the asset register before 30 June. Consider delaying the sale of assets that will realise a profit on sale and bring forward any sales that will result in a loss.

Review valuations of trading stock in the lead up to 30 June. The best practice is generally to value stock at the lower of cost or market selling value.

These best practices should be revised if you expect a tax loss for 2022/23 or substantially higher income in 2023/24 compared to 2022/23.

Personal Income, Deductions and Tax Offsets

Subject to cash flow requirements, set term deposits to mature after 1 July, rather than before 30 June.

Consider realising capital losses if you have already realised capital gains on other assets during 2022/23. Conversely, consider realising capital gains if you have unrecouped capital losses, or you expect substantially higher income in 2023/24 compared to 2022/23.

If you expect lower income in 2023/2024 due to retirement or any other reason, consider deferring income until after 1 July, when you will be in a lower tax bracket. If you are a primary producer and you expect a permanent reduction in income, consider withdrawing from the income averaging system.

Arrange for deductible donations to be grouped in the higher income year if you expect a substantially higher or lower income in 2023/2024 compared to 2022/23. Make all donations in the name of the higher income earner.

Other Tax Planning Considerations

Contact us for advice if you have moved to or from Australia for an extended period. You may need to review your residency status for tax purposes. There are important tax consequences if you change tax residency. Trustees of trusts should ensure that all necessary documentation is completed before 30 June, especially where you intend to stream capital gains or franked distributions to specific beneficiaries or have beneficiaries who aren't the default beneficiaries. Family discretionary trusts may need to make a family trust election if the trust has unrecouped losses or has beneficiaries whose total franking credits for the year may exceed \$5,000. Be sceptical of year-end tax shelter schemes. You should not enter a scheme without advice regarding both its tax consequences and commercial viability.



Income Tax Changes – Small Businesses

Temporary Full Expensing of Assets – Extension to 30 June 2023

The temporary full expensing of depreciating assets measure has been extended by 12 months until 30 June 2023. From 7.30 pm AEDT on 6 October 2020 until 30 June 2023 the temporary full expensing allows:

- Eligible business entities with an aggregated turnover less than \$5 billion or corporate tax entities that satisfy the alternative test can immediately expense the cost of eligible **new** depreciating assets.
- Eligible businesses with an aggregated turnover under \$50 million can immediately expense the business portion of the cost of eligible **second-hand** assets for
- Businesses with an aggregated turnover under \$10 million can immediately expense the balance of a small business pool at the end of each income year in the period.

Temporary Loss Carry-Back – Extension to 30 June 2023

The temporary loss carry-back measure has been extended by 12 months until 30 June 2023.

- Eligible corporate tax entities with 'aggregated turnover' of up to \$5 billion can elect to 'carry back' a tax loss incurred in the 2019-20 to 2022-23 income years and offset it against the income of the 2018-19 or later years to generate a refundable tax offset.
- The loss carry-back provision only applies to taxable losses, not capital losses and is limited to the corporate entity's income tax liabilities in the relevant income year and the company's franking account balance at the end of the current year.

Suspension of "Lockout Rules"

The "lockout rules" that prevent small business entities from accessing the simplified depreciation regime for five years after they opt-out of that regime will continue to be suspended for the 2022/23 income year.

Division 7A / Present Entitlements of Private Companies

The ATO has finalised their approach that apply to present entitlements of private companies that arise on or after 1 July 2022. Please contact us if you have any questions about what the ATO views may mean for you and your arrangements.

Section 100A Trust Reimbursement Agreements

The ATO has finalised their guidance on trust reimbursement agreements in relation to entitlements arising from 1 July 2022. Please contact us if you have any questions about what the ATO views may mean for you and your arrangements.

Income Tax Changes – Individuals

Low and Middle Income Tax Offset

The 2022-23 October Budget did not announce any extension of the LMITO to the 2022-23 income year. From 1 July 2022, the LMITO ceased and has been fully replaced by the low income tax offset (LITO) which remains at \$700 for the 2022-23 income year.



Work from Home Temporary Shortcut Method

From 1 July 2022 the short-cut method for claiming 'working from home' expenses is no longer available. The two methods to claim expenses are the fixed rate method or the actual cost method. Eligibility and record keeping requirements apply.

Removal of Self-education Expenses Threshold

The removal of the first \$250 of a prescribed course of education expense came into effect from the 2022-23 financial year and will apply to the Fringe Benefits Tax (FBT) year starting 1 April 2023.

Employee Share Schemes – Deferred Taxing Point

Effective 1 July 2022, employment ceasing will no longer be a deferred taxing point for employee share schemes (ESS) purposes.

Superannuation Changes

Superannuation Changes

From 1 July 2022, changes apply to superannuation, consisting of:

- An increase in the superannuation guarantee (SG) charge percentage from 10% to 10.5% applies to payments made from 1 July 2022 irrespective of when the work was done.
- The \$450 monthly minimum earnings threshold has been removed and employers will be required to make super guarantee contributions to their eligible employee's super fund regardless of how much the employee is paid. Employee eligibility criteria still applies.
- Individuals under 75 years of age will no longer need to meet the work test to make non-concessional contributions and salary sacrifice contributions. The work test still applies to personal deductible contributions for those aged 67-75 years.
- The eligible age for the non-concessional contribution bring-forward rule was increased to 75 years of less, subject to other eligibility rules.
- Under the FHSS Scheme the maximum amount of voluntary superannuation contributions that can be released has been increased from \$30,000 to \$50,000.



Please contact us to discuss any of these items that may impact your tax position for the 2022/23 year.

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From 1 January, 2023 the eligible age for making downsizer contributions was reduced to aged 55 years or older.

Reducing Superannuation Minimum Drawdown Rates

The 50% reduction in the minimum pension drawdown requirements remain for the 2022–23 income year, to support retirees with account-based pensions and similar products from having to sell investment assets in their self-managed super funds (SMSF) to fund minimum drawdown requirements.

Fringe Benefits Tax

FBT Rates & Thresholds for 31 March 2023

- FBT rate remains at 47%
- Record keeping exemption threshold increased to \$9,181
- Car parking threshold increased to \$9.72
- Statutory or benchmark interest rate decreased to 4.52%
- Small business turnover threshold for FBT concessions is \$50 million

Electric Cars Exemption

From 1 July 2022, an FBT exemption applies if you provide private use of an electric car that meets all of the following conditions:

- the car is a zero or low emissions vehicle
- the first time the car is both held and used is on or after 1 July 2022
- the car is used by a current employee or their associates eg. family member
- the car is below the luxury car tax threshold (\$84,916 for 2022-23) for fuel efficient vehicles