SwitzerReport

TAX TIPS
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Contents

WHAT CAN YOU CLAIM WHILE WORKING FROM HOME?

By Peter Switzer
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Nine's *A Current Affair* asked me to explain what someone working from home can claim as a tax deduction. When I was talking to the cameramen, they indicated they were not aware of claimable expenses when working from home. So, I guess there are a lot of normal Aussies in the same boat. What follows is a summary of what you should know if you are an employee locked up at home doing work.

First up, it's important for you to know that to claim a deduction you must have spent the money, or you will be charged something for using, say, extra heating because you were working from home. When it comes to the Tax Office, they want you to be able to prove it and so having records of the costs are important. Also, the expense must be directly related to earning your income, so if you want to claim your Netflix account you better have a good list of docos that are relevant to your business. If you're a TV critic, that Netflix bill is all business!

And by the way, if your boss pays you an allowance or a rebate to cover your costs from working at home, then you can't claim your outlay as a tax deduction unless the amount is less than the cost to you. If it's more it becomes income that you will pay tax on!

1. WHAT CAN I CLAIM?

So, what can you claim? Check these out:

- **You can claim** for electricity, heating, cooling, lighting, cleaning costs, phone, internet, home office equipment.
- If the cost is crucial to you doing your job from home and you have proof, then it should be claimable.

You can claim full cost up to $300 for home office equipment, which includes computers, printers, telephones, furniture and furnishings. For bigger amounts a depreciation deduction in your tax return is permissible.

2. WHAT CAN'T I CLAIM?

This info always leads to someone asking, what can't I claim?

- **You can't claim** your mortgage, rent and rates.
- Childcare or other expenses relating to children or their education
- You also can't claim coffee, tea, bickies, that you might have got for free at work! Nor toilet paper, but you could claim the paper for your printer.

3. HOW DO I CLAIM?

Ultimately through your tax return and there are three ways to claim. Here they are:

- **The shortcut method**, where you simply claim a rate of 80 cents per work hour for all additional running expenses. You keep a timesheet and so if you work 10 hours a day then you can claim $8 a day or $40 a week over how many weeks you are locked up and not at work.

- **The fixed rate method**, which the ATO says "you can claim a deduction of 52 cents for each hour you work from home instead of recording all of your actual expenses for heating, cooling, lighting, cleaning and the decline in value of furniture." This rate is based on average energy costs and the value of common furniture items used in home business areas.
- **The actual cost method**: a proportion of the actual cost. If you think your house usage has risen by 20% working from home you claim 20% of heating, phone, etc.

(For more info go to: https://www.ato.gov.au/individuals/income-and-deductions/deductions-you-can-claim/home-office-expenses/)

TIP

ARE YOU A BUSINESS THAT NEEDS SOME EQUIPMENT TO EXPAND OR GROW?

As part of its response to Covid-19, the Government has expanded the instant asset write-off scheme, which allows businesses to claim a 100% tax deduction upfront on the purchase of equipment. Businesses with an annual turnover of up to $500m are eligible and the equipment threshold has been raised to $150,000.

Some important points to note:
- The threshold excludes GST, so you can potentially purchase an item that costs up to $165,000 (including GST);
- Can be new or second-hand equipment;
- A car limit applies to passenger vehicles (up to $57,581);
- If the equipment is for both business and private use, you can only claim the business portion,
- It is available on a per item basis and can apply to multiple assets. Potentially, you could spend $300,000 purchasing 2 units of the same item each costing $150,000 provided they are separately invoiced.

The main caveat is that you must have sufficient taxable income to apply the tax deduction, and of course, the cash flow.

5 SUPER ACTIONS TO TAKE BEFORE THE END OF FINANCIAL YEAR

By Paul Rickard

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Like most things financial, the super system works on a financial year basis. With the end of the financial year (30 June) just around the corner, here are 5 actions you can take to make sure you are getting the most out of the system.

1. Can you claim a tax deduction by making additional contributions to super?

There are two caps that limit how much you can contribute into super. A cap on concessional (or pre-tax) contributions of $25,000, and a cap on non-concessional (or post tax) contributions of $100,000.

Concessional contributions include your employer's compulsory super guarantee contribution of 9.5% and any salary sacrifice contributions you elect to make. They are called "concessional" contributions because they are a tax-deductible expense for your employer.

There is also a third form of concessional contribution which is a personal contribution you make and claim a tax deduction for. Previously, this was only available to the self-employed under what was known as the '10% rule' (to qualify, no more than 10% of the person's income could come in wages or salary from an employer). However, this rule has been scrapped so that anyone can potentially claim this tax deduction.

There are two important caveats. Firstly, you must be eligible to make a super contribution. If you are under 65, or aged between 65 and 74 and pass the work test, you will qualify (there are some particular rules for the under 18s). Secondly, you aren't allowed to exceed the $25,000 cap on concessional contributions.

Let's take an example. Tom is 45 and earning a gross salary of $100,000. His employer contributes $9,500 to his super, and he has elected to salary sacrifice a further $5,000. Potentially, prior to 30 June, Tom can contribute a further $10,500 to super and claim this amount as a tax deduction. He will do this when he completes his 19/20 tax return.

Tom will need to notify his super fund that this is a contribution he is claiming a tax deduction for. He does this by using a standard ATO form (https://www.ato.gov.au/uploadedFiles/Content/SPR/downloads/n71121-11-2014_js33406_w.pdf) or online with his super fund. Technically, he will have until the earlier of when he lodges his tax return or 30 June 2021 to do this.

If your total superannuation balance was less than $500,000 on 30 June 2019, you could potentially make additional contributions above the $25,000 concessional cap. Known as 'carry forward concessional contributions', you can carry forward the unused portion of your cap for up to 5 years. Designed to help persons with moderate super balances who leave the workforce, the scheme commenced on 1 July 2018. This is the first year a 'catch-up' contribution can be made.

2. Can you make additional post tax contributions to super?

Non-concessional contributions are personal super contributions made from your own after-tax monies. You don't claim a tax deduction for these contributions, and they are capped at $100,000

each year. You must be under 65, or if aged between 65 and 74, meet the work test to qualify. And your total super balance (as at 1 July 2019) must also be less than $1,600,000.
If you are under age 65 (technically aged 64 or less at 1 July 2019), then you can access the "bring-forward rule" which allows you to make up to three-years' worth of contributions or $300,000 in one go. A couple could potentially get $600,000 into super. Ability to access this is further limited by your total super balance (under $1.4m full amount; $1.4m to $1.5m $200,000; $1.5m to $1.6m $100,000).

3. Can you or a family member access the Government Co-Contribution?
There aren't too many free handouts from Government. The government super co-contribution remains one of the few that is available – so it seems silly not to try to access it. If eligible, the Government will contribute up to $500 if a personal (non-concessional) super contribution of $1,000 is made.

The Government matches a personal contribution on a 50% basis. This means that for each dollar of personal contribution made, the Government makes a co-contribution of $0.50, up to an overall maximum contribution by the Government of $500.

To be eligible, there are 3 tests. The person's taxable income must be under $38,564 (it starts to phase out from this level, cutting out completely at $53,564), they must be under 71 at the end of the year, and critically, at least 10% of their income must be earned from an employment source. Also, they can't have exceeded the non-concessional cap or have a total super balance over $1.6 million.

While you may not qualify for the co-contribution, this can be a great way to boost a spouse's super or even an adult child. For example, if your kids are university students and doing some part time work, you could potentially make a personal contribution of $1,000 on their behalf – and the Government will chip in $500!

4. Can you claim a tax offset for super contributions on behalf of your spouse?
If you have a spouse who earns less than $37,000 and you make a spouse super contribution of up to $3,000, you can claim a personal tax offset of 18% of the contribution, up to a maximum of $540.
The tax offset phases out when your spouse earns $40,000 or more. Effectively, your maximum rebatable contribution of $3,000 is reduced on a $ for $ basis for each $ of income that your spouse earns over $37,000. The offset is then 18% of the lesser of the actual super contribution or the reduced maximum rebatable contribution.
Your spouse's income includes their assessable income, reportable fringe benefits and any reportable employer super contributions such as salary sacrifice. Similar to the rules for the co-contribution, you cannot claim the offset if your spouse exceeded their non-concessional cap or their total super balance was more than $1.6 million.

5. Pensions – have you paid enough?
If you have an account based super pension, the Government requires that you take at least the minimum payment, otherwise your fund will potentially be taxed at 15% on its investment earnings, rather than the special rate of 0% that applies to assets that are supporting the payment of a super pension.

The minimum payment is based on your age and calculated on the balance of your super assets at the start of the financial year (1 July). To assist retirees following the Covid-19 pandemic, the Government has reduced the minimum annual payment required by 50% in the 2019-20 and 2020-21 financial years. The factors to apply this year are shown below.

Age	Minimum % withdrawal (FY20 and FY21)
Under 65	2.0%
65 – 74	2.5%
75 – 79	3.0%
80 – 84	3.5%
85 – 89	4.5%
90 – 94	5.5%
95 and above	7.0%

For example, if you were aged 66 on 1 July 2019 and had a balance of $1,000,000, your minimum payment is 2.5% of $1,000,000 or $25,000. You can take your pension at any time or in any amount(s), but your aggregate drawdown over the year must exceed the minimum amount. If you commenced a pension mid-year, the minimum amount is pro-rated according to the number of days remaining until the end of the financial year.

Finally, don't leave any actions to the last minute. While there is some flexibility around the allocation of contributions to member accounts, they must be received and banked by the super fund by 30 June. This year, 30 June falls on a Tuesday – so if you're making a contribution, allow sufficient time for the monies to be processed and cleared. Most super funds say to allow at least two working days – so get your contributions in by Friday 26 June.

QUICK TIP FROM PAUL RICKARD

DID YOU SELL AN ASSET THIS YEAR? WILL YOU HAVE TO PAY CAPITAL GAINS TAX?

When assets are sold, capital gains tax (CGT) is payable. The main exemption is the family home. The gain (essentially the sale proceeds less the cost base) is counted as part of your assessable income and taxed at your marginal tax rate. If you have owned the asset for more than 12 months, individuals are eligible for a 50% discount (meaning they only pay tax on 50% of the gain), while super funds are eligible for a one-third discount (they pay tax on two-thirds of the gain). There is no discount for companies that own assets.

Can you offset gains with losses?

Capital gains can be offset by capital losses, and if the losses cannot be applied, they can be carried forward from one tax year to the next and then applied to offset a capital gain. If you make a capital loss, don't forget about it.

If you have taken a gain in 19/20, consider these questions:

- Do you have any carried forward capital losses from 18/19 that you can apply?
- Have you taken losses on other assets in 19/20 that you can apply?
- Do you have assets in a loss situation that you should sell now to crystalize a loss?

While you should never do anything just for tax reasons, crystalizing a loss on a non-performing asset can often make sense. Potentially, you can always re-purchase the asset if you subsequently decide that the sale was a mistake.

Conversely, if you have taken capital losses during the year, you may want to consider the disposal of assets in a gain situation.

One other point to note. If you have multiple parcels of the same asset (for example, shares acquired through a dividend re-investment plan) and you sell part of that asset, you can choose which parcel(s) you sell. There is no set formula (such as FIFO (first in first out) or LIFO (last in first out)) to apply, meaning that you can select the parcels that best optimise your CGT liability.

DONATIONS TO CHARITIES

Please don't forget about our charities, many of whom have found that COVID-19 has led to an increase in demand for their services. Donations are, of course, tax deductible, meaning that for high rate taxpayers, the Government pays almost half. (If your marginal tax rate is 47%, a donation of $100 only costs you $53). Get your donations in by 30 June!

OWN AN INVESTMENT PROPERTY? HERE'S WHAT YOU CAN CLAIM

By Margaret Lomas
Property Market Analyst
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As the financial year draws to a close, it's time to start thinking about tax planning. If you're a property investor, or a self-managed superannuation fund trustee with funds invested in geared property, you need to start thinking of some strategies you can undertake before 1 July ticks over. There's certainly nothing worse than waking up on that day to realise that you are too late for what could have been some benefits, or, worse still, haven't crossed something important to ensure you are tax office compliant!

So, here is your end-of-year checklist to ensure you're prepared:

END OF YEAR CHECKLIST

☐ **1.** Think about any repairs and maintenance that might be needed and do it before June 30. Any expenditure on items under $300 (such as new light fittings, tap fitting etc.) is an immediate write-off in the year that it is incurred. If you can't get the work done prior to the 30th, at least try to order, and pay for, any of the materials you'll be needing.

☐ **2.** Consider pre-payment of interest. You can pre-pay up to 12 months' worth of interest on your investment debt and claim the deduction on that interest immediately. This strategy is not necessarily useful to those who plan to earn the same income every year, as all you are doing is bringing forward that deduction and then not having access to it the following year. However, if you have a year where you may have been pushed into a higher tax bracket due to a bonus or wage rise, or if you know that in later years your income may decrease and you may fall into a lower bracket (due to a Black Swan event like COVID-19), it can be useful to bring forward the deduction to a year where it may be worth more to you. It's also useful to those who may have access to some extra cash now but know that they are headed into a time where cash may be tighter – you essentially give yourself a 12-month repayment holiday.

☐ **3.** If you have not already done so, contact a Quantity Surveyor and have a depreciation report prepared.

☐ **4.** Ask your property manager to have your annual statements emailed to you as soon as possible. These statements should cover all of the management fees as well as rent collected. You will need these to pass on to your accountant so that your tax returns can be accurately prepared and so you want these statements as soon as you can get them. Equally, for a strata titled property, ask for your annual body corporate levy statement to be provided as soon as possible.

☐ **5.** While you're talking to your property manager, carry out a rent review. Some property managers prefer to set and forget and you could be due for a rent increase. Where vacancy rates are falling and low, don't lock yourself into any long-term leases – you want to be able to increase rent every 6 months in line with market value, rather than be locked into a lower rent for a long period of time.

6. Finally, once your tax return is prepared, consider completing and submitting an Income Tax Withholding variation (ITWV). This allows you to estimate the coming years' deductions and begin to claim them on a weekly basis, every time you receive your pay. Having your deductions up front in this way can help you to manage payment of your property related expenses and potentially make extra loan repayments, reducing interest so that you own the asset sooner. Be careful though – if your estimations are too far out either way, you can be penalized, so it's best to have an accountant make these estimations for you.

Start out the new financial year organised so that the following years' returns are easy to prepare for.

EXAMPLES OF COMMON IMMEDIATE DEDUCTIONS:

1. Advertising for a tenant;
2. Loan interest and bank fees;
3. Body corporate fees, rates, energy and water bills;
4. Land tax;
5. Cleaning, mowing, gardening, repairs and maintenance;
6. Building, contents, liability and landlord's insurance;
7. Property management fees, legal fees (not relating to the actual purchase);
8. Lease costs;
9. Pest control;
10. Quantity surveyor's fees;
11. Security patrol fees; and
12. Stationery, postage and telephone.

THREE EXAMPLES OF COMMON DEPRECIATION EXPENSES:

- Furniture
- Carpets
- Curtains

THREE EXAMPLES OF COMMON CAPITAL WORKS DEDUCTIONS:

- A building or extension, such as a new room, garage, patio or pergola
- Alterations – such as removing or adding an internal wall
- Structural improvements – such as adding a gazebo, carport, sealed driveway or fence.

Everything you could possibly need to know about deductions and depreciation can be found in the Residential Rental Properties section of the ATO website: https://www.ato.gov.au/general/property/residential-rental-properties/

TIP

Depreciation can be divided into two types —depreciation on plant and equipment (also known as Division 40 deductions) and depreciation on the building or capital works deductions (also known as Division 43 deductions). Plant and equipment include furniture and fixtures and fittings that are not part of the building's structure. (As a rule of thumb, if the item can be moved, then it is an item of plant and equipment, otherwise it is capital works). For properties purchased after 9 May 2017, you cannot claim depreciation on "second- hand" plant and equipment assets previously installed by another owner. You can only depreciate assets that you purchase for the property (for example, a new carpet).

Capital works deductions include the cost of the construction of the building apportioned over a 4-year period. You may need a Quantity Surveyor to assess this for you, and of course, your claim is limited to 100% of the cost of the construction. It is calculated at a rate of 2.5% of the cost of the construction. Capital works deductions can also be claimed on in-ground swimming pools, plumbing and gas fittings, garage doors and skylights, and baths and toilets.

YOUR SUBSCRIPTION

Q. WHAT IS INSIDE THE SWITZER REPORT?

A. *The Switzer Report* newsletter is sent out 3 times a week on Monday, Thursday and Saturday. The newsletter includes:

- 2 weekly articles from economist and financial commentator, Peter Switzer
- A weekly article from founder and ex-CEO of CommSec, Paul Rickard
- Weekly articles from regular contributors including Charlie Aitken, Tony Featherstone, James Dunn and more.
- 2 broker recommendation reports per week telling you which stocks are a Buy, Hold or Sell.
- A weekly **Questions of the Week** segment where Paul Rickard answers your questions submitted via https://switzersuperreport.com.au/ask-tell-diy-super/
- A monthly '**Model Income & Growth Portfolio**' prepared by Paul Rickard, which gives you an example of how you can diversify your portfolio and shows you which stocks achieve income and growth.

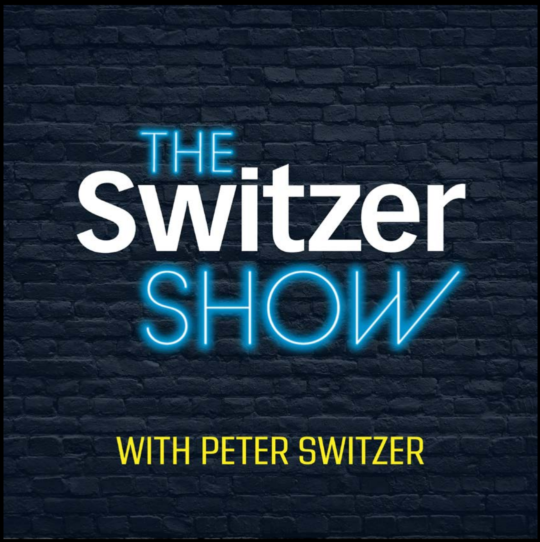
Q. WHAT ELSE IS INCLUDED IN MY SUBSCRIPTION?

A. In addition to this, *Switzer Report* subscribers also have access to:

- A NEW weekly video segment via Zoom, which we call '***Boom! Doom! Zoom!***' This is a live streaming service where you will be able to ask Peter Switzer and Paul Rickard questions about the specific shares you're interested in live on Zoom, every Thursday at 12pm.
- **Monthly webinars** on the first Friday of every month. Peter Switzer and Paul Rickard are joined by a different guest (previous guests have included Burman Invest's Julia Lee and Michael Wayne from Medallion Financial Group), to discuss topical issues affecting your investments. Again, this is another chance to ask questions and get stock tips.
- **Free tickets** to our investment conferences and events throughout the year.

If you ever require additional support you can contact the Switzer team at **(02) 9293 0900** from 8.30am-5.30pm, Monday to Friday.

Podcast



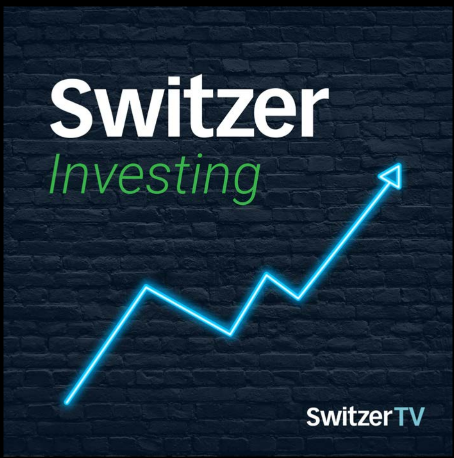
THE SWITZER SHOW PODCAST

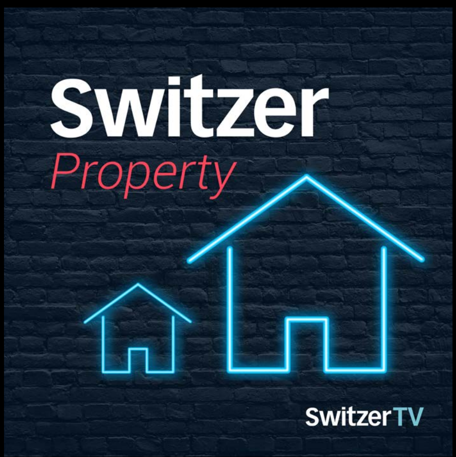
Are you a nutter for property investing? Peter Switzer went "Around 'The Block' with Scott Cam" in his episode of The Switzer Show podcast a few weeks ago.
Another fun fact, Peter Switzer was actually Scott Cam's old economics teacher in high school. You can listen to the episode here for a fun reunion between student and teacher.
The Switzer Show is a weekly podcast that comes out every Wednesday, hosted by Peter Switzer. Our guests have included leaders from a range of fields, including Treasurer Josh Frydenberg, ZIP Co CEO Larry Diamond and cricket commentator Jim Maxwell.

TV Show

WOULD YOU LIKE MORE TAX TIPS?

Peter Switzer and Paul Rickard host a free YouTube segment every week on Switzer TV called *Mad About Money*. Their episode on 17 June 2020 covers all "Paul Rickard's terrific tax tips" that apply to everyone. Give it a watch **HERE**





Switzer TV on Youtube consists of 3 weekly segments:

1. ***Switzer TV: Investing*** – airs every Monday night at 8pm.
2. ***Switzer TV: Mad About Money*** – airs every Wednesday at 9am.
3. ***Switzer TV: Property*** – airs every Thursday afternoon at 5pm.

SUBSCRIBE to our Youtube channel 'Switzer Financial Group' with your Gmail account for more.