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Year End Planning Guide

June 2022

Introduction

With 30 June fast approaching, we thought it would be an opportune time to provide you with a Year End Planning memorandum detailing:

- key dates;
- recent reforms; and
- tax planning opportunities that may affect you and your business.

Please do not hesitate to contact our office if there is any further information we can provide for your business, or if you would like a review of your individual or superannuation situation prior to year-end.

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What is changing from 1 July 2022?

For business

Change to the superannuation guarantee

From 1 July 2022, the Superannuation Guarantee (SG) rate will increase to 10.5% up from 10% in the 2021-22 financial year. The rate will continue to increase each year by 0.5% until SG reaches 12% on 1 July 2025.

If you currently have employees, the impact of this will depend on your employment agreements. If the employment agreement states the employee is paid on a 'total remuneration' basis (base plus SG and any other allowances), then the employee's take home pay may reduce by 0.5%. That is, a greater percentage of their remuneration will be directed to their superannuation fund. On the other hand, for your employees who are paid a rate plus superannuation, then their take home pay will remain unchanged and the 0.5% increase will be added to their SG payments.

$450 super guaranteed threshold removed

From 1 July 2022, the $450 threshold test will be removed and all employees aged 18 or over are required to be paid superannuation guarantee regardless of how much they earn. It is important to ensure that your payroll system allows for this change so you do not inadvertently underpay superannuation.

For employees under the age of 18, superannuation guarantee is only paid if the employee works more than 30 hours per week.

Lowering tax instalments for small business – Pay As You Go (PAYG)

PAYG instalments are regular prepayments made during the year of tax on business and investment income. The actual amount owing is then reconciled at the end of the income year when the tax return is lodged.

Normally, GST and PAYG instalment amounts are adjusted using a GDP adjustment or uplift. For the 2022-23 income year, the government has set this uplift factor at 2% instead of the 10% that would have applied. The 2% uplift rate will apply to small to medium enterprises eligible to use the relevant instalment methods for the instalments for the 2022-23 income year:

- Up to $10 million annual aggregated turnover for GST instalments; and
- $50 million annual aggregated turnover for PAYG instalments.

The impact is that small businesses using this PAYG instalment method will have more cash during the year to utilise. However, the actual amount of tax owing on the tax return will not change, just the amount you contribute during the year.

ATO increases heat on directors

In March 2022, the ATO sent letters to directors who are potentially in breach of their obligations to ensure that the company they represent has met its PAYG withholding, superannuation guarantee charge, or GST obligations.

The letters should not be ignored as they are a warning.

Broadly, the director penalty regime ensures directors are personally liable for certain debts of the company if the debts are not actively managed. The liability applies to both current and former directors.

In order to recover the debt, the ATO will issue a director penalty notice to the individual directors. From there, the ATO is able to commence action to recover the unpaid amounts, including:

- By issuing garnishee notices;
- Offsetting tax credits owed to the director against the penalty; or
- Initiating legal recovery proceeding against the director.

In some instances, it is possible for the penalty to be remitted but this will depend on when the PAYG withholding, GST and superannuation guarantee charge amounts are reported to the ATO. For example, in some instances the penalty can be remitted if an administrator or small business restructuring practitioner is appointed to the company, or the company begins to be wound up. It is important to note, this is normally only possible for PAYG withholding and GST amounts if they are reported to the ATO within three months of the due date. In the case of the superannuation guarantee charge amounts, it is only possible if the unpaid amount is reported by the due date of the SGC statement.

If the unpaid amounts are not reported to the ATO by the required deadline, then the only way for the penalty to be remitted is for the debt to be paid in full. At this stage, the winding up of the company will not make the liability of the directors go away.

If you have received a warning letter from the ATO or a director penalty notice, then please contact us as soon as possible.

Trust distributions to companies

The ATO recently issued a draft tax determination dealing specifically with unpaid distributions owed by trusts to corporate beneficiaries. If the amount owed by the trust is deemed to be a loan then it can potentially fall within the scope of the integrity provisions in Division 7A. If certain steps are not taken, such as placing the unpaid amount under a complying loan agreement, these amounts can be treated as deemed unfranked dividends for tax purposes and taxable at the taxpayer's marginal tax rate. The ATO guidance deals specifically with, and potentially changes, when an unpaid entitlement to trust income will start being treated as a loan depending on the wording of the resolution to pay a distribution. The new guidance applies to trust entitlements arising on or after 1 July 2022

If you believe this applies to you, please contact us to discuss.

Superannuation

Work-test repeal – enabling those under 75 to contribute to super

Currently, a work test applies to superannuation contributions made by individuals who are aged 67 or older. Generally speaking, the work test requires an individual to be gainfully employed for a minimum of 40 hours over a 30 day period in the financial year.

From 1 July 2022, the work-test will be removed and individuals aged less than 75 years will be allowed to make or receive non-concessional (including under the bring-forward rule) or salary sacrifice superannuation contributions without having to meet the work test, subject to existing contribution caps. However, the work test will still apply to personal deductible contributions.

By implementing the change, individuals aged under 75 can access the 'bring forward rule' if the total superannuation balance allows. Essentially the bring forward rule enables individuals to contribute up to three years' worth of non-concessional super contributions in one year.

Downsizer contributions from aged 60

From 1 July 2022, eligible individuals aged 60 years or older can choose to make a 'downsizer contribution' into their superannuation fund of up to $300,000 per person ($600,000 per couple) from the proceeds of selling their home. Currently, eligible individuals must be 65 years or older to access the downsizer contribution.

The downsizer contribution is funded using the proceeds from the sale of an individual's main residence (as long as it has been owned for at least 10 years). Downsizer contributions are excluded from the age test, work test and the total superannuation balance (but not exempt from the transfer balance cap).

First home saver scheme – using super to save for a first home

The purpose of the First Home Super Saver Scheme is to allow first home buyers to withdraw voluntary contributions made to superannuation and any associated earnings, to put towards the cost of a first home.

Currently, the maximum amount of the voluntary contributions which can be made and withdrawn is $30,000. From 1 July 2022, the maximum amount increases to $50,000. The advantage if the scheme is the concessional tax treatment of superannuation.

Key Dates

Due Date	Description
Pre 30 June 2022	Pay superannuation to claim tax deduction in the current financial year. Trustee resolutions need to be completed and signed to be able to distribute trust income for the 2022 financial year to beneficiaries. Ensure Tax File Numbers have been received from beneficiaries.
14 July 2022	Single Touch Payroll finalisation required (If you started reporting in the 2020 financial year). 2022 PAYG Payment Summaries provided to all your staff if you were not required to report via Single Touch Payroll. (If you were required to report via Single Touch Payroll, payment summaries are not required to be provided unless payments were not reported under the Single Touch Payroll).
21 July 2022	June 2022 monthly activity statement - due date for lodging and paying.
28 July 2022	Quarterly superannuation guarantee payment due (1 April-30 June), if not paid pre 30 June 2022.
31 July 2022	TFN report for closely held trusts for TFNs quoted to a trustee by beneficiaries in quarter 4, 2021-22.
22 August 2022	July 2022 monthly activity statement - due date for lodging and paying.
25 August 2022	Quarterly activity statement, quarter 4, 2021-22 - tax agents and BAS agents - due date for lodging and paying if you are lodging using one of the following: • electronic lodgment services (ELS) • electronic commerce interface (ECI) • Tax Agent Portal • BAS Agent Portal • Standard Business Reporting (SBR)

Trading Stock

Performing a stocktake will determine any increases/decreases in assessable income and provide you with an insight as to the value of stock at year end.

A stocktake involves physically counting stock and valuing each item by using one of the following three methods:

- Cost Price – Purchase price in addition to other costs such as freight, insurance, duties and delivery charges to bring the stock to its current condition;
- Market Selling Value – Current value of stock if sold in the normal course of business; and
- Replacement Value – Cost on the last day of the financial year to obtain an almost identical item.

You can choose a different method each year for different items of stock.

Please contact us should you require further information regarding the taxable treatment of stock.

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Capital Gains

If in the 2022 Financial year you have sold/transferred property, assets or other rights you may need to consider the Capital Gains Tax (CGT) implications of the disposal including whether you have access to any losses, the 50% discount or other methods to reduce the impact of the gain.

Identifying these events prior to 30 June 2022 allows us to determine the potential taxable impact and provides time to gather the necessary substantiation required as part of the year-end compliance.

It is important to note the ATO is becoming more sophisticated in identifying any sale or transfer of assets, in particular, Crypto currencies. If you are trading Crypto currencies through a centralised exchange in Australia, it is likely the ATO will have access to the details of any sales or transfers.

If you believe a CGT event may have occurred, please contact our office for further information.

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Assets/Depreciation

The end of financial year provides a great opportunity to analyse any current assets held and determine whether:

- Any obsolete assets can be scrapped/written off;
- Repair/Maintenance works can be conducted to extend the useful life of assets; and
- Full replacement of obsolete assets is necessary.

In considering the purchase of new assets:

- Assets with a value of less than $1,000 can be allocated to a low value asset pool.

Full expensing of depreciating assets

Subject to specific rules, the temporary full expensing of depreciating assets is available for the financial year ended 30 June 2022. Under the temporary full expensing rules, an eligible business can claim an immediate deduction for the business portion of the cost of an asset in the year it was first used or installed ready for use for a taxable purpose.

Generally speaking, where a business entity has an aggregated turnover of less than $5 billion, it can claim an immediate deduction for the cost of assets that start to be held and are first used and installed ready for use for a taxable purpose between 6 October 2020 and 30 June 2022. In the 2021-22 Federal Budget, the Government announced these rules would be extended for another 12 months and apply up to 30 June 2023.

If you are a small business (aggregated turnover of less than $10 million), the temporary full expensing of depreciating assets has replaced the simplified depreciation rules when the assets are first held and used or installed between 6 October 2020 and the 30 June 2023. Consequently, the full cost of eligible depreciating assets as well as costs of improvements to existing eligible depreciating assets can be fully deducted.

Where a business is not classified as a small business entity, there is the option to apply the temporary full expensing rules on an asset-by-asset basis (please note, a small business entity which applies the simplified depreciation rules does not have the option to opt-out of temporary full expensing rules on an asset-by-asset basis).

It is important to note, not all assets qualify for the temporary full expensing. For example, the following do not qualify for the temporary full expensing:

- Building and other capital works (for example, leasehold improvements);
- Assets which fall into a low value pools or software development pool;
- Certain primary production assets;
- Second-hand assets purchased by an entity who has an aggregated turnover of $50m or more;
- Assets which will never be located in Australia or are not principally used in carrying on a business in Australia.

If you are planning on purchasing a motor vehicle, the temporary full expensing is limited to the business portion of the car limit. The car limit for the 2021-22 financial year is $60,733.

Please contact us should you require any further specifics in relation to assets and depreciation, including whether your business qualifies for the temporary full expensing.

Division 7A, Dividends + Trusts

As with every year, general year-end tax planning includes:

- Consideration of any Division 7A impacts - including repayments required and loan agreements being put in place to avoid deemed dividends being triggered;
- Trustee Resolutions – ensuring these are made and signed by 30 June 2022 or earlier if required by the trust deed, after perusal of the deed and taking into account the definition of income provided;
- Dividends – ensuring these are declared with statements/resolutions signed by 30 June 2022; and
- TFN Reports – lodging these reports for minors who have turned 18 during the 2022 financial year in addition to non-resident beneficiaries who became residents.

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Single Touch Payroll ("STP")

From 1 July 2019 employers with less than 20 employees were required to be STP ready and compliant.

From 1 July 2021, small employers were required to report closely held payee information.

In January 2022, the ATO's Single Touch Payroll Phase 2 came into effect and requires employers who need to report information about their employees to multiple government agencies to report additional information including:

- Employment basis
- Paid leave
- Allowances
- Overtime
- Cessation details
- Child support deductions
- Salary sacrifice
- Lump sums
- Country codes

Employers are also required to separately itemise the components which make up the gross amount, including bonuses, directors fees, paid leave, salary sacrifice, overtime and allowances.

Should you have any concerns about your compliance with the STP regime, please contact us for further assistance in relation to this.

Superannuation Terminology

If you started a pension or have a member balance greater than $1.7M in FY22, below is a summary of the superannuation terminology that is relevant to you.

Acronym	Meaning	Definition
TSB	Total Superannuation Balance	TSB is relevant with effect from 30 June 2017. TSB is the total value of your (member) super balance at a given date (held with all super funds) and includes both accumulation and pension account balances. It will affect your contribution caps.
TBC	Transfer Balance Cap	TBC applied with effect from 1 July 2017. TBC is a limit on the total amount of superannuation that can be transferred into retirement pension phase (currently $1.7 million). The TBC remains at $1.7M for the 2021-22 financial year.
TBA	Transfer Balance Account	TBA applies with effect from 1 July 2017. TBA is a method of tracking transactions and amounts in retirement phase. The balance of your TBA determines whether you have exceeded your TBC at the end of any given day. Your TBA measures your transfer balance, which is the sum of credits less the sum of debits posted to the account.
TBAR	Transfer Balance Account Report	TBAR obligations commenced 1 July 2018. TBAR are used to report certain events in a separate form to the SMSF annual return (SAR). The TBAR is a method designed by the ATO for tracking transactions and amounts in retirement phase. It also enables the ATO to record and track an individual's balance for both their TBC and TSB. TBAR applies to SMSFs on a compulsory basis from 1 July 2018, and SMSF trustees will need to disclose the value of "Pre 1 July 2017-Retirement Pensions" being paid by 1 July 2018. Late lodgement of TBAR will attract a $210 penalty for each period of 28 days that a TBAR is lodged late, subject to a maximum of $1,050 penalty.

Minimum Pension Payments

Members with pension accounts during FY22, must withdraw a minimum amount of pension from their super fund's pension account prior to 30 June 2022. The minimum pension is calculated based on age and percentage of your pension account balances as at 1 July 2021 and are set by the Federal Government.

Please note that the rates for the 2022 financial year have been reduced by 50% as summarised below:

Age	Minimum pension %	Reduced rate of 50% for the 2021-22 income year (%)
Under 65	4%	2%
65-74	5%	2.5%
75-79	6%	3%
80-84	7%	3.5%
85-89	9%	4.5%
90-94	11%	5.5%
95 or more	14%	7%

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Concessional Contributions

Income Year	Age	Annual Cap
2021-2022	< 67 years	$27,500
	> = 67 years	$27,500 (subject to work test rules)

As announced in the federal budget, from 1 July 2017, (following the removal of the 10% rule), if you are aged under 67, you are also allowed to top up your super using concessional contributions (up to $27.5K cap) by contributing personally and claim a tax deduction for those personal contributions regardless of your employment situations. Those aged 67 to 74 will still need to meet the work test in order to be eligible to make a contribution and claim a tax deduction. A notice of deduction under section 290-170 will have to be completed in order to claim the deduction. This change will benefit individuals who are partly self-employed and partly salary earners, and individuals whose employers do not offer salary sacrifice.

For the 2021/2022 year, an individual is liable to pay Division 293 tax if the sum of their adjusted taxable income and their low tax contributions is greater than $250,000. If you believe this could apply to you, please contact your MGI office to discuss.

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Non-concessional Contributions (NCC)

The non-concessional contributions caps are as per below for the year ending 30 June 2022:

Income Year	**Age**	**Annual Cap**
2021-2022	< 67 years	$110,000
	> = 67 years	$110,000 (subject to work test rules)

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Bring Forward Rule Caps

For the year 2021-22 year, members under 67 years of age (at the start of the financial year) can bring forward up to $330,000 in non-concessional contributions in one year, representing non-concessional cap for the current year and the following two years. The non-concessional contributions cap amount you can bring forward, and whether you have a two or three year bring-forward period, will depend on your total superannuation balance at the end of 30 June of the previous financial year as per the table below:

Superannuation Balance at 30 June 2021	Maximum non-concessional contributions cap for the first year	Bring-forward period
< $1.48 million	$330,000	3 years
$1.48 - $1.59 million	$220,000	2 years
$1.59 - $1.7 million	$110,000	One year/standard annual cap
>= $1.7 million	Nil	Not applicable

Catch-up Contributions

From 1 July 2019 if you have a Total Superannuation Balance (TSB) of less than $500,000 on 30 June of the previous year, you may be able to contribute more than the general concessional cap by using unused cap amounts from earlier years.

The first year these unused accounts could be used is the 2019/2020 financial year. The unused amounts are available for five years and tracking of the unused portion began in the 2018/2019 year.

If you believe this could apply to you, please contact us to your MGI office to discuss.

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Company tax rate

In 2022, the company tax rate for base rate entities has been lowered from 26.0% in 2021 to 25%. A base rate entity is a company with aggregated turnover of less than $50 million that derives 80% or less of its income from dividends, interest, royalties, rent and net capital gains.

Dividends declared will be franked at the lower rate of 25%. The lowering of the corporate tax rate for such base rate entities means the effects of over-franking (e.g. if profits are taxed at 25% but franking occurs at 30%) or under-franking (e.g. if profits are taxed at 30% but franking occurs at 25%) are even more pronounced than in previous years.

Loss carry-back measures

2020 was the first year the new loss carry-back measures could be used to provide a refund to companies when they lodge their 2020 tax returns.

Companies with an aggregated turnover of less than $5 billion can choose to carry back their:

- 2022 tax losses and offset it against their 2019, 2020 and 2021 income tax liability, noting the amount of refund/offset is limited to the lesser of the amount of tax paid previously or the surplus in the franking account at 30 June 2022.

If no choice is made to use the loss carry-back measures, the loss is carried forward and can be offset against future profits provided either the continuity of ownership or similar business tests are met.

Marginal income tax brackets

For the 2021-22 financial year, the marginal income tax brackets for a resident individual have remained unchanged and are as follows:

Taxable income	Tax on this income
$0 - $18,200	Nil
$18,201 - $45,000	19 cents for each $1 over $18,200
$45,001 - $120,000	$5,092 plus 32.5 cents for each $1 over $45,000
$120,001 - $180,000	$29,467 plus 37 cents for each $1 over $120,000
$180,000 and over	$51,667 plus 45 cents for each $1 over $180,000

The above rates do not include the Medicare levy of 2%.

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Fuel tax credit changes

The Australian government has temporarily halved the excise and excise equivalent customs duty rates for petrol, diesel and other petroleum-based products (except aviation fuel) for 6 months from 30 March 2022 until 28 September 2022.

During the 6 month period, businesses using fuel in heavy vehicles for travelling on public roads will not be able to claim the fuel tax credits for fuel used for this purpose. The reason is the road user charge exceeds the excise duty payable, therefore, reducing the fuel tax credit to nil.

Director Identification Number (DIN)

The Government has recently introduced a DIN. A DIN is a unique identifier that all directors will need to apply for and will keep forever. The DIN is to help prevent the use of false or fraudulent director identities. When you need to apply for a DIN depends on when you become a director;

- Existing directors have until 30 November 2022 to apply.
- Directors appointed between 1 November 2021 and 4 April 22 must apply within 28 days of their appointment.
- From 5 April 2022, intending directors must apply before being appointed

In order to obtain your director ID, please visit https://www.abrs.gov.au/director-identification-number

Contact Us

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