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ACN 121 288 373

A member of Nexia International

Chartered Accountants

Business Advisers and Consultants

The Bottom Line

- Individual -

WHAT'S NEW

Income tax thresholds

A new tax year (2023-24) started on 1 July 2023. Although the personal income tax rates haven't changed (the Stage 3 income tax cuts don't start until 1 July 2024), various other amounts and rates have increased for 2023–24. These are listed below.

Item	Threshold/rate for 2023–24
CGT improvement threshold	$174,465
Division 7A benchmark interest rate	8.27%
Car limit (depreciation)	$68,108
Car expenses – cents per kilometre method (individuals and individuals in partnership only)	85 cents per kilometre
Reasonable meal expenses – employee truck driver	Breakfast: $28.75 Lunch: $32.80 Dinner: $56.60
Reasonable meal expenses – other employees	See Taxation Determination TD 2023/3
Overtime meal allowance – reasonable amount	$35.65
Invalid and invalid carer offset (IICTO)	$3,152
Maximum adjustable taxable income where IICTO cuts out	$12,890

Instant asset write-off

Temporary full expensing ended on 30 June 2023. However, small businesses (aggregated annual turnover of less than $10 million) can access the instant asset write-off. This allows a small business to deduct in full the cost of a depreciating asset if its cost is less than the relevant threshold which, for the 2023–24 income year, is proposed to be $20,000.

This means a sole trader (for example) will be able to deduct in the 2023–24 income year the total cost of a depreciating asset they acquire between 1 July 2023 and 30 June 2024 if it costs less than $20,000 – as long as it is first used (or installed ready for use) by 30 June 2024.

The temporary $20,000 threshold was announced in the 2023-24 Federal Budget in May, although it is yet to be legislated.

GDP adjustment for 2023–24

The GST and PAYG instalment amounts are usually adjusted every year by the ‘GDP adjustment factor’.

For 2023–24, the GDP adjustment factor is 6%. For 2022–23, the GDP adjustment factor was 2%.

Medicare levy surcharge and private health insurance

The income thresholds for the Medicare levy surcharge and private health insurance tax offset purposes are set out in the table below. They have increased for the first time since 2014–15.

	No surcharge & maximum offset	Tier 1	Tier 2	Tier 3
Singles	$93,000 or less	$93,001-$108,000	$108,001-$144,000	$144,001 or more
Families*	$186,000 or less	$186,001-$216,000	$216,001-$288,000	$288,001 or more

* The family income threshold is increased by $1,500 for each dependent child after the first child.

The Medicare levy surcharge is 1% for Tier 1 taxpayers, 1.25% for Tier 2 taxpayers and 1.5% for Tier 3 taxpayers.

The private health insurance tax offset percentage is highest for Tier 1 taxpayers and lowest for Tier 3 taxpayers. The percentage also varies depending on the ages of the persons covered by the relevant health insurance policy. There are 3 age brackets — under 65, 65 to 69 and 70 or above.

HELP and other student debts

Do you have a study or training debt — e.g. a Higher Education Loan Program (HELP), VET Student Loan (VSL), Student Financial Supplement Scheme (SFSS), Student Start-up Loan (SSL), ABSTUDY Student Start-up Loan (ABSTUDY SSL) or Trade Support Loan (TSL) debt? The repayment thresholds and rates for the 2023–24 income year are set out in the table below.

Repayment income (RI)	Repayment rate
Below $51,550	Nil
$51,550 – $59,518	1.0%
$59,519 – $63,089	2.0%
$63,090 – $66,875	2.5%
$66,876 - $70,888	3.0%
$70,889 – $75,140	3.5%
$75,141 – $79,649	4.0%
$79,650 – $84,429	4.5%
$84,430 – $89,494	5.0%
$89,495 – $94,865	5.5%
$94,866 – $100,557	6.0%
$100,558 – $106,590	6.5%
$106,591 – $112,985	7.0%
$112,986 – $119,764	7.5%
$119,765 – $126,950	8.0%
$126,951 – $134,568	8.5%
$134,569 – $142,642	9.0%
$142,643 – $151,200	9.5%
$151,201 and above	10%

Penalties

The value of a penalty unit has increased from $275 to $313 where the relevant offence is committed, or relevant act or omission occurs, on or after 1 July 2023.

Superannuation and ETP thresholds

Relevant superannuation and ETP (employment termination payment) thresholds for the 2023–24 income year are listed below.

	2023-24
Concessional contributions cap for individuals aged under 75	$27,500
Concessional contributions cap for individuals aged 75+	Only mandated employer contributions
Non-concessional contributions cap	$110,000
Transfer balance cap	$1,900,000
CGT cap amount	$1,705,000
Low rate cap amount/ETP cap amount	$235,000
Untaxed plan cap amount	$1,705,000
ETP life benefit cap amount	$235,000
ETP life benefit whole of income cap amount	$180,000
ETP death benefit cap amount	$235,000
Bona fide redundancy/early retirement scheme payment - base tax-free amount - each completed year of service	 $11,985 $5,994
Co-contribution lower income threshold	$43,445
Co-contribution upper income threshold	$58,445

Note:

- To deduct a personal superannuation contribution, an individual aged 67–75 years must be ‘gainfully employed’ for at least 40 hours in any 30-day period in the income year.
- Remember that if you accessed your superannuation early in response to the COVID-19 pandemic, you can choose to re-contribute those amounts by 30 June 2030 without them being counted towards your non-concessional contributions cap. The choice must be made in the approved form and given to your superannuation fund before you make the re-contribution.

Pensions and annuities – minimum drawdown amounts

The minimum drawdown amounts for 2023–24 are set out in the table below. The 50% reduction in the minimum drawdown amounts, which applied for 2019–20, 2020–21, 2021–22 and 2022–23, does not apply for 2023–24.

Age	Minimum drawdown
Under 65	4%
65-74	5%
75-79	6%
80-84	7%
85-89	9%
90-94	11%
95+	14%

If you receive more than the minimum drawdown amount, you can recontribute these amounts if you are eligible to make superannuation contributions (subject to other rules or limits such as contributions caps).

TAX TIME AGAIN!

The due date for lodging your income tax return for the 2022–23 income year is 31 October 2023. However, if you use a registered tax agent to lodge your return, the due date for lodgment is likely to be later than 31 October, possibly even as late as May 2024.

Not all of the pre-filled information may be available from banks, government agencies and private health funds.

The ATO has said that waiting for the pre-fill information to upload 'means people don't have to roll the dice when they lodge, and it's less likely an amendment will need to be made later, which could result in a tax debt'. If necessary, errors or omissions in your tax return can be fixed through the ATO online amendment process via myGov.

Lodging a tax return

Are you a sole trader?

- Even if your income is below the tax-free threshold of $18,200, you still need to lodge a tax return.

- Do you pay PAYG instalments? Lodge your activity statements and pay all your PAYG instalments before you lodge your tax return so your income tax assessment takes into account the instalments you've paid throughout the year.

Are you a partnership?

If you operate your business in a partnership:

- the partnership lodges the partnership tax return, reporting the partnership's net income or loss (assessable income less allowable deductions).

As an individual partner, you report on your individual tax return:

- your share of any partnership net income or loss
- any other assessable income, such as salary and wages (note that any salary or wage from the partnership is treated as a share of the partnership income), dividends and rental income.

The partnership doesn't pay income tax on the income it earns. Instead, you and each of the partners pay tax on the share of net partnership income you receive.

Are you a trust?

- If you operate your business through a trust, the trust reports its net income or loss (this is the trust's assessable income less its allowable deductions).
- The trustee is required to lodge a trust income tax return.
- As a beneficiary of a trust, you report on your individual tax return any income you receive from the trust.

Tax losses

A tax loss arises when the total deductions you can claim, excluding gifts, donations and personal superannuation contributions, are greater than your total income for an income year.

If you make a tax loss, you may be able to:

- offset the loss in the same income year against your other assessable income; or
- carry forward the loss and claim it as a business deduction in a later income year.

The rules for record-keeping still apply in relation to business losses. You need to keep records for 5 years for most transactions. However, if you fully deduct a tax loss in a single income year, you need to keep records for only 4 years from that income year.

Non-commercial loss rules

If you're a sole trader or in a partnership and want to utilise a tax loss, first check if the business activity meets at least one of the four tests under the non-commercial loss rules. (Those rules do not apply to losses made by primary producers and professional artists whose income from other sources is less than $40,000.)

Broadly, the four tests are:

- *the assessable income test* – this is satisfied if the business activity generates at least $20,000 a year (or would reasonably be estimated to generate at least $20,000 if the activity were carried on for the whole income year);

- *the profits test* – this is satisfied if the business activity has made a profit in at least 3 of the last 5 income years, including the current year (in the case of a partnership, the test looks at the individual partner's share of partnership income and deductions);

- *the real property test* – this is satisfied if the total value of real property used on a continuing basis in carrying on the business activity is at least $500,000;

- *the other assets test* – this is satisfied if the total value of other assets (e.g. depreciating assets, trading stock and intellectual property) used on a continuing basis in carrying on the business activity is at least $100,000.

If you do meet at least one of the four tests, then you can offset the loss against other assessable income (such as salary or investment income) in the same income year.

If you don't meet at least one of the four tests, you can carry the loss forward to a future income year. For example, you can offset it when you next make a profit.

Non-commercial losses made by an individual with an adjusted taxable income exceeding $250,000 are quarantined.

Personal services income

If you operate your business through a company or a trust, income earned by the company or trust from the provision of your personal services (known as 'personal services income' or **PSI**) will be attributed to you unless:

- the company or trust is conducting a personal services business (**PSB**); or

- the PSI was promptly paid to you as salary or wages.

The company or trust will be conducting a PSB if at least one of a number of tests are satisfied. These are:

- *the results test* – this is based on common law criteria for characterising an independent contractor (in contrast to an employee/employer relationship);
- *the unrelated clients test* – this requires the PSI to be earned from at least 2 unrelated clients who contract your services as a direct result of advertising or making a public offer of your services;
- *the employment test* – this requires at least 20% (by market value) of your work to be performed by employees;
- *the business premises test* – this requires you to use business premises that meet certain conditions (e.g. you have exclusive use of the premises and the premises must be physically separate from any premises you use for private purposes).

If 80% or more of your PSI (with certain exceptions) is income from one client (or the client and their associate(s)) and the results test is not met, the company or trust will need to obtain a PSB determination from the ATO.

The company or trust cannot deduct amounts that relate to gaining or producing your PSI, unless you could have deducted the amount as an individual or the company or trust received the PSI in the course of conducting a PSB.

Even if you don't use a company or trust to derive your PSI, there are limitations on the deductions that you may claim against your PSI. For example, you may not be able to deduct certain home office expenses or occupancy expenses such as mortgage interest or rent.

Home office

A lot more people are working from home following a shift in workplace arrangement as a result of the COVID-19 pandemic. If you operate your business from a home office, you can deduct the expenses of running that office. Note there can be CGT consequences from using your home to carry on a business.

Expenses you may be able to claim a deduction for include:

- *occupancy expenses* – these include rent, mortgage interest, water rates, land taxes and house insurance premiums. Occupancy expenses are usually calculated by apportioning the expenses between the home office and the rest of the property on a floor area basis;
- *running expenses* – these are the increased costs from using your home for your business, including electricity or gas charges for heating, cooling and lighting, cleaning costs and the decline in value and the cost of repairs of deprecating assets such as furniture, furnishings and equipment; and

- *work related phone and internet expenses*, including the decline in value of the handset – an apportionment will be required if the phone or computer is not used exclusively for work purposes.

Running expenses

If you work from home but don't have a home office as such, you can still claim deductions for 'running expenses'. To simplify matters, from 1 July 2022, the ATO allows these expenses to be claimed using a fixed rate of 67 cents for each hour worked from home (it was 80 cents per hour for 2021–22 under a different method, the temporary 'shortcut method').

Running expenses for these purposes are energy expenses, internet expenses, mobile and home phone expenses and stationery and computer consumables expenses (separate deductions need to be claimed for any other running expenses and depreciation).

From 1 March 2023, you must keep a record of the actual time spent working from home. From 1 July 2022 to 28 February 2023, you may instead keep a record that is representative of the actual hours worked. Records also need to be retained to demonstrate you incurred the relevant expenditure. In this respect, the ATO will accept one bill per item (being energy, internet, fixed or mobile telephone and stationery and computer consumables). If the bill is not in your name, additional evidence such as a credit card statement is required to show that you incurred the expenditure.

Of course, you can still make a claim based on your actual running expenses if it produces a larger deduction. But remember that those expenses will need to be apportioned between work and private use.

Small business tax offset

If you are a sole trader, an individual who is a partner in a business partnership or an individual who is a beneficiary of a trust that carries on a business, you may qualify for the small business income tax offset if the business' aggregated turnover is less than $5 million (this is less than the general $10 million small business entity threshold). The offset is not available to an individual acting in their capacity as a trustee.

The offset for the 2022–23 income year is equal to 16% of the income tax payable on the sole trader's or other individual's taxable income that qualifies as net small business income. The offset is capped at $1,000.

Deductions for COVID-19 tests

You can claim a deduction for costs you incurred for COVID-19 test expenses provided the test was undertaken for a work-related purpose, such as to determine whether you could attend or remain at work. The test can be any test in the Australian Register of Therapeutic Goods, such as a polymerase chain reaction (**PCR**) test or rapid antigen (**RAT**) test.

To claim a deduction, you must have records to prove that:

- you incurred the cost (usually a receipt); and
- you were required to take the test for work purposes.

You can also claim a deduction for the cost of a COVID-19 test if you required the test to undertake travel away from your home overnight for work purposes.

You should claim only the work-related portion of your expense on COVID-19 tests. For example, if you buy a multipack of 5 COVID-19 tests and you use 2 for work purposes and the other 3 for non-work purposes – such as for other family members or for leisure activities – you may claim only 2/5^{ths} (40%) of the expense.

You can't claim a deduction for the cost of a COVID-19 test if:

- you used the test for private purposes, for example, to test your children before they returned to school;
- you worked from home and did not intend to attend your workplace; or
- your employer provided the test or you were reimbursed for the cost of the test.

You can't claim the cost of travelling or parking to get a COVID-19 test.

FROM THE ATO

Top tips for sole traders

Tax time for a sole trader can be stressful, however with a little planning you don't need to dread doing your tax return.

The ATO has published on its website an example involving a self-employed professional tiler, called Benzi, whose total gross business income is $82,000 per annum.

Benzi knows that he'll have a tax bill at the end of the financial year, so he decides to set up weekly payments from his business account to the ATO to cover the bill.

Benzi also follows tips he received from his tax agent and the ATO website. This ensures he can meet his tax obligations, which makes tax time a smoother experience.

- Benzi is registered as a business, as he's carrying on an enterprise and is registered for GST because his business has a GST turnover of $75,000 or more.

- He reports all assessable income, including non-monetary payments and payments in kind.

- He claims deductions for expenses, but only claims the business portion of an expense if it's for both business and private use, including for his motor vehicle.

- He correctly reports any personal services income (**PSI**).

- Benzi uses the ATO app to access and manage his tax and superannuation, and the *myDeductions* tool to capture expenses as they happen.

Wondering if you are a tax resident?

If you live overseas for some or all of the income year, you may still be an Australian resident for income tax purposes. There are 4 tests to determine if an individual is a resident:

1. The individual is a resident of Australia according to ordinary concepts (the ordinary concepts test).

2. The individual is domiciled in Australia unless the ATO is satisfied that their permanent place of abode is outside Australia (the domicile test).

3. The individual has been in Australia for more than half of the income year (i.e. in excess of 183 days) unless the ATO is satisfied that the individual's usual place of abode is outside Australia and they do not intend to take up residence in Australia (the 183-day test).

4. The individual is a member of certain Commonwealth government superannuation schemes or is the spouse or child under 16 of such an individual.

The ATO has issued a new Taxation Ruling (TR 2023/1) that discusses the various residency tests. It replaces older rulings with more contemporary and consolidated guidance that better reflects modern global work practices and recent court decisions.

The Ruling also contains information on the 183-day residency test which will assist a large number of individual taxpayers, especially those who come to Australia on short-term work and holiday visas.

Latest scams

The ATO has said that it is receiving an increased number of reports about several ATO impersonation SMS and email scams.

These scams encourage people to click on a link that directs them to fake myGov sign-in pages designed to steal their username and password.

Scammers use many different phrases to try and trick recipients into opening these links. These include (but are not limited to):

- 'You are due to receive an ATO Direct refund';
- 'You have an ATO notification'
- 'You need to update your details to allow your Tax return to be processed';
- 'We need to verify your incoming tax deposit';
- 'ATO Refund failed due to incorrect BSB/Account number';
- 'Due to receive a refund, click here to receive a rebate'.

Do not open any links or provide the information requested.

The ATO won't send you an SMS or email with a link to log on to online services. They should be accessed directly by typing ato.gov.au or my.gov.au into your browser.

While the ATO may use SMS or email to ask you to contact them, they will never ask you to return personal information through these channels.

You can report any suspicious contact claiming to be from the ATO to ReportScams@ato.gov.au.

Appointing an SMSF auditor

You need to appoint an approved self-managed superannuation fund (**SMSF**) auditor for each income year, no later than 45 days before you need to lodge your SMSF annual return (**SAR**).

Your SMSF's audit must be finalised before you lodge, as you'll need some information from the audit report to complete the SAR. You must ensure the correct auditor details are provided in the SAR, otherwise you may be penalised.

Your auditor will perform a financial and compliance audit of your SMSF's operations before lodging. Remember, an audit is required even if no contributions or payments are made in the financial year.

Your approved SMSF auditor must be:

- registered with ASIC – you'll need to provide their SMSF auditor number (**SAN**) on your SAR;
- independent – auditors shouldn't audit a fund in which they hold any financial interest, or where they have a close personal or business relationship with members or trustees; and
- work for a firm who provides your fund with other services such as certain accounting services, tax, superannuation or financial planning advice.

If a fund doesn't meet the rules for operating an SMSF, the auditor may be required to report any contraventions to the ATO.

Approved SMSF auditors can be busy so it's a good idea to start this process early. You can find a list of approved SMSF auditors on the ASIC website.

Taxation statistics 2020–21

The ATO has published on its website various taxation statistics for 2020–21. We have picked out some of the more interesting ones.

The *top 10 occupations* (by average taxable income) are (in order):

- surgeon;
- anaesthetist;
- financial dealer;
- internal medicine specialist;
- psychiatrist;
- other medical practitioner;
- mining engineer;
- judicial or other legal professional;
- chief executive officer or managing director; and
- financial investment advisor or manager.

The *top 5 postcodes* (by average taxable income) for individuals are (in order):

- 2028 (Double Bay);
- 2030 (Dover Heights, Vaucluse and Watsons Bay);
- 6011 (Cottesloe, Peppermint Grove);
- 3142 (Hawksburn, Toorak); and
- 3944 (Portsea).

Positions 6-10 are occupied by Sydney postcodes: 2023, 2027, 2025, 2063 and 2088.

Taxable income and tax

- *Average taxable income* – $68,289 (male $79,524, female $56,739).
- *Average net tax* – $20,226 (male $24,465, female $15,464).
- *Median taxable income* for 2019–20 was $50,980 (male $59,415, female $44,547).
- *Median net tax* – $11,026 (male $13,787, female $8,446).

Deductions

Deduction item	2020–2021		
	Individuals (no.)	Average ($)	Median ($)
Work-related expenses	9,632,799	2,381	1,275
Other expenses included in managing your tax affairs	5,836,000	339	180
Gifts or donations	4,193,605	1,047	130

When it comes to gifts or donations, WA had the highest average claim – approximately $1,700 per person. Victoria is next in the list at approximately $1,100 per person, followed by the ACT, NSW, Queensland, South Australia, Tasmania and the Northern Territory.

Rental properties

Property interests (no*)	2020–2021		
	Net rent loss (no)	Net rent neutral/ profit (no)	Total individuals (no)
1	759,783	845,267	1,605,050
2	201,004	222,463	423,467
3	59,187	71,189	130,376
4	20,390	26,892	47,282
5	8,323	11,121,	19,444
6 or more	8,264	11,656	19,920
Total	1,056,951	1,188,588	2,245,539

*Property interests implies solely or jointly owned properties, including those bought or sold during the year.

KEY TAX DATES

Date	Obligation
21 Sep 2023	August monthly BAS due
3 Oct 2023*	Finalisation due date by payers of PAYG withholding payments reporting through STP for closely held payees
23 Oct 2023**	September monthly BAS due Payment of annual PAYG instalment for 2022–23
30 Oct 2023**	September quarter BAS due Payment of first PAYG instalment for 2023–24 by quarterly payers
31 Oct 2023	2022–23 income tax return due
	PAYG withholding annual reports due (no ABN withholding; interest, dividend and royalty payments paid to foreign residents; and payments to foreign residents)
21 Nov 2023	October monthly BAS due

*Next business day as the due date falls on a Saturday (and 2 October is a public holiday in a number of States and Territories).

**Next business day as the due date falls on a Saturday.

Note! Talk to your tax agent to confirm the correct due dates for your own tax obligations. For example, you may have more time to lodge and pay if impacted by COVID-19 or a natural disaster.

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