



COLVILLE WILLIAMS & CO. PTY LTD

TAX NEWS

June 2022

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Please note: The comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the applicability of the information to their particular circumstances.

Appointment Times

The following times have been allocated for individual tax return preparation:

Fred	Monday	1 pm - 6 pm
Other times by arrangement, please enquire.		
Greg	Tuesday	1 pm - 5 pm
Weechan	Wednesday	9 am - 1 pm
Anthony	Thursday	9 am - 3 pm
Nicholas	Friday	9 am - 12 pm
Brett	Friday	2 pm - 5 pm

Face to face
appointments
are back!

Ashlyn and **Jennifer** are available to make appointments or assist in any way.

Please do not make an appointment until you have all relevant information. Cancelling appointments in the busy period is unfair to others. If your personal details have changed, please remember to let us know.

Please direct your email enquiries to our mailbox address:
mail@colville.com.au

FEE

Standard tax return fee \$187. Due to increasing costs we are forced to raise the price of a standard tax return this year. This is only our second increase in 15 years.

OFFICE HOURS

Our office hours are 8:30am to 5:00pm Monday to Friday.

CAR PARKING

The local council routinely enforce permitted parking times in front of the shops.

We encourage you to take note of parking restrictions and park accordingly. Anyone intending to park for more than half an hour should park in the rear car park.

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Government Automation Projects Roll On

In recent years, the ATO have implemented 'Single Touch Payroll' (STP) and as transitional concessions have now ceased, we expect the ATO will target non-compliance over the next year and any laggard employers will be brought to heel.

To be compliant with STP, employers have been forced to adopt cloud-based software to record employee payroll information and report this to the ATO in real time. This has enabled the ATO to monitor business compliance in relation to tax withholding and superannuation requirements on a more-timely basis. The previous manual reporting method will soon be decommissioned entirely.

Phase 2 of the STP rollout takes effect from 1 July 2022, adding further reporting obligations to employers. Indeed, as you will see later in the newsletter, the ATO is now moving to require the software companies to extend their capabilities to enable wider reporting of payroll and sub-contractor payments on a regular basis and for the software to pre-fill turnover figures on the Business Activity Statement.

ASIC have also instigated a program requiring all company directors to possess a Director Identification Number. This program was introduced to digitize the identity of company directors, enabling more accurate and timely capture of data and deter fraudulent activity. Whilst the concept is good policy in our view, the implementation is lacking.

Any person who is already a company director or seeks to become one will need to obtain a myGov ID registration. For many this is not too onerous, but those that are not 'tech savvy' should expect difficulty utilizing yet another piece of Government software. Even for 'tech savvy' individuals it requires access to taxation data to promptly complete the matching process and issue the Director Identification number. Our dedicated team will assist with this process where required. All directors will need to have their ID in place by November 2022.

We are also seeing a more aggressive approach by the ATO in areas ranging from debt collection to tax law interpretation.

The change of Government is likely to see the ATO being even more emboldened in their approach. While inheriting a trillion plus dollar debt load and a limited ability to legislate to change spending programs, the new Government is likely to be looking at all avenues to increase revenue.

Don't be surprised to read that the delivery of the previous Government's legislated stage 3 tax cuts gets delayed, possibly until after the next election. Stage 3 tax cuts apply to individuals and are due to take effect from 1 July 2024, reducing the tax rate of taxable incomes between \$45,000 and \$200,000 to a single rate of 30%.

Cyber Crime Warning

From reading the newspapers you would think that there are armies of young computer nerds sitting behind desks in Russia, China, Iran, etc. who spend all day just trying to log in to our computer systems to cause mischief.

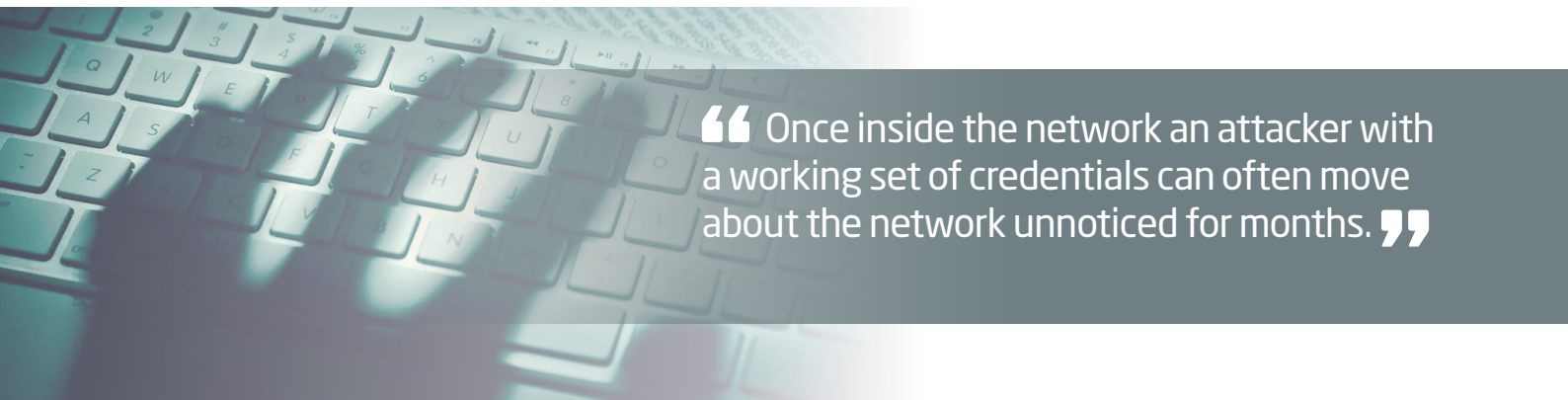
The reality is that much of the initial attacks are automated, and therefore almost instantaneous, with the aim of having someone inadvertently answer the 'door' and provide these criminals with a way in.

The most common method is known as a 'phishing' attack, where an email is mocked up with copies of logos of a reputable company with warning messages. Usually it will state that something is wrong with your computer or your security has been compromised. It will then direct you to follow the link and log in to your account to fix the problem.

If you do this the cyber-criminal then has your log in and password details and proceeds to log in themselves to your account, steal funds or even steal your identity for other frauds, or might install 'ransom-ware' on your computer and blackmail you.

Worse still is when the targeted individual is working through a Computer Server for their employer. This exposes the employer's computer system and it's 'Active Directory' (AD), which sits at the heart of a business' IT infrastructure. Compromising the AD system can give attackers a skeleton key to the entire network.

Once inside the network an attacker with a working set of credentials can often move about the network unnoticed for months and gain access to confidential data as well as making changes to core software and inflict much more damage. Often the time lapse will bypass the key initial defence mechanism of the of previous day's back up.



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Unfortunately many organisations store credentials in places that cyber-criminal can readily access. For example, many passwords live on client devices, network passwords reside in memory, and browsers, email and other applications store various passwords.

As a first line of defence to avoid such mischief an organization should invest in training staff to always treat such emails with great suspicion. It should also be reinforced that employees should never agree to Google's request to 'save the password' as this stores that password on the computer for a hacker to discover.

A simple check of the sender's email address will usually clearly identify that it is fake, although the cyber-criminals are getting very good at making both their emails and their email addresses look legitimate.

If your business uses a computer server it is essential you engage trusted IT professionals to implement and maintain Anti-Virus and Malware programs, implement a thorough and rigorous back-up system, ensure server and program software is regularly updated to the latest and most secure versions and regularly monitor the system for unusual activity.

It is also important to have clear and timely on-boarding systems for new employees and off-boarding systems for departing employees.

Whilst there is now legislation requiring organisations to protect their client data from cyber crime, the fact that modern business cannot function effectively without computer systems or in fact fail very quickly if these systems are compromised, makes it paramount to spend the money required to adequately protect these systems.

As a last resort, cyber insurances are now becoming a common-place feature of business insurance policies. This insurance can be used to cover the costs of employing IT professionals to try and remedy any malware or access issues, or to cover liability costs in the event of data theft.

As with all insurances, you pay for the coverages required and you must take all reasonable steps to avoid the insurable events happening in the first place if you don't want the insurer to disclaim liability.

Tax News

Personal Income Tax Rates

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

Low Income Tax Offsets

The 'Low Income Tax Offset' (LITO) has remained at \$700 and applies on taxable incomes of up to \$37,500.

The 'Low and Middle Income Tax Offset' (LMITO) on incomes of up to \$126,000 has been increased to a maximum of \$1,500 but will finish with the 2022 financial year. The offset is only available through the tax return lodgment process and is not reflected in the weekly tax scales which employers use.

Company Tax Rate

The company tax rate has decreased further for eligible small and medium companies operating a business, these companies are referred to as Base Rate Entities (BRE). For 2022 financial year, the tax rate drops from 26% to 25%, which will be the final rate change under this policy.

Franking credits are applied to dividends at the company's prevailing tax rate in the year the dividend is paid.

For all other companies (non-BRE), the tax rate remains at 30%.

Trust Distributions - The S.100A Trap

In February, the ATO released a draft ruling in relation to trust distributions whereby they are seeking to throw out a hundred years of convention and challenge who receives and how much tax is levied on those distributions.

Typically, the trustee of a discretionary family trust would distribute an amount to a beneficiary, seeking out family members on lower marginal tax rates. It would not be uncommon for this beneficiary to be an adult child, such as an apprentice or university student and the trustee would credit the distribution to the parents' loan account. Tax would be paid at a lower marginal tax rate than would otherwise have been the case. The journal entry to credit the parent's loan account would often be viewed as a means for the adult child to reimburse the parent for education and maintenance expenses.



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Through the draft ruling, the ATO has effectively decreed that the tax on distributions should be borne by those controlling the trust or those that receive the actual financial benefit of the trust distribution. In the case of the apprentice or student referred above, unless the beneficiary receives the actual distribution in their bank account, the distributed amount may be deemed to belong to the parent and be taxed at the parents' much higher marginal tax rates.

The draft ruling makes concessions for transactions that are deemed to be part of a normal family arrangement, however, an examination of the examples cited by the ATO suggest that they hold a very narrow view of what constitutes “normal”. Anything outside the permitted normal falls into the “red zone” and faces potential ATO scrutiny.

Extreme care is required now, more than ever, when dealing with trust distributions.

Recent court cases have shown that the ATO interpretation is not always supported by the courts and judgements have gone against them. This is highlighted in a case where the ATO sought to attack the use of 'journal entries' as evidence of a transaction occurring, which was rebuffed by the courts. Once again, don't be surprised if in due course this ill-conceived challenge to trust distributions will go the same way.

In the meantime, it will cause great consternation in the accounting profession and amongst our clients until the courts reject these outrageous abuses of the ATO's tax law interpretive powers.

There is similar legislative over-reach in relation to self-managed superannuation funds, members cannot do any work for their own fund unless it is conducted on arms-length terms. In essence, professionals such as accountants, lawyers, financial planners, estate agents and the like are precluded from providing services to their own super funds for using their skills unless they charge themselves for it. The left hand charging the right hand with little overall benefit. How ridiculous!

Company Carry-back Losses

As reported last year, small business companies will be able to carry back losses incurred in the 2020, 2021 and 2022 financial years against previously taxed profits in the 2019 to 2021 financial years. This measure is designed to allow companies who have gone into a loss scenario due to the pandemic to get a refund of tax paid on profits in earlier years.

The measure is built in as a taxpayer company election option in the 2021 and 2022 company tax returns. Hence where there is a current year loss you will have the option to either go back or to carry forward the loss.

This measure works in tandem with the capital expenditure and instant asset write off regime (below) which may generate one off tax losses which can then be claimed back against prior year profits to generate a cash refund – of course any cash refund will only occur to the extent that the prior year tax has actually been paid.

We will discuss the option with clients where relevant.

Capital Expenditure Instant Asset Write Off Extended

Small Businesses have, for several years now, been able to effectively apply a 100% depreciation rate to the purchase of new plant and equipment up to a certain value, a measure which the Federal Government put in place to encourage the acceleration of business investment.

The write off provisions have had various iterations but the only version still current is 'Temporary Full Expensing' which applies to assets installed and ready for use by 30 June 2023.

As we have previously noted, the write off is only of use if the SME has sufficient profits to write off the accelerated depreciation against and has spare funds or can obtain the finance to purchase the assets.

Superannuation News

Aged Person Contribution Level Changes

Legislation was finally passed to allow people aged between 67 and 75 to make contributions to a superannuation fund without having to meet the '40 hours in the preceding month' work test.

The new rules apply from 1 July 2022 onwards and will allow people in this age range to make NON deductible contributions of up to \$110,000 per annum and potentially \$330,000 up to age 75.

This measure may be more useful in enabling re-contribution strategies which will reduce the potential tax exposure of non-financial dependents in the event of the death of a super fund member.

Given the Senior and Aged Persons Offset (SAPTO) means that an aged person is not taxed on their first \$29,000 of income and couple on their first \$58,000 of income there may be very little incentive to shift funds into superannuation considering the investment costs associated with that regime.

In order to obtain a tax deduction for a contribution, for example to offset a large capital gain, the aged person will still need to meet the work test rules.

Contribution Limits

Concessional contributions are limited to \$27,500 for the 2022 financial year. Note this is on an 'as paid' basis, which may not line up with the totals on your PAYG Summary as employers have 28 days after the end of a quarter to pay super contributions to the nominated funds.

The five year carry forward rules apply for unused limits from FY 2019 onward where a member has a total super balance of under \$500,000 when making the higher contributions.

Non concessional contributions continue at \$110,000 per annum with an ability to utilize a three year bring forward subject to your total super balance the previous 30 June to making the contribution.

Six Member SMSFs

Legislation was also finally passed to increase the maximum number of members in a self-managed super fund from four to six. This change in theory allows for more family members to join their super savings in the same fund and benefit from the investment strategies and transparency of those funds.

Whilst sounding great, there are significant control issues with bringing in other family members and great care needs to be taken before utilising this feature.

The fund's Investment Strategy must be revisited in clear terms to take into account the interests, investment profiles and circumstances of all of the members, risk and return characteristics, asset composition, insurance needs, liquidity, etc.

This includes the consequences of a member dying and the ability of another member of the fund to take over their account balance to avoid issues with assets needing to be sold to pay out a deceased member's benefits.

Minimum Pensions Halved For 2023

The 50% reduction in the minimum required pension drawdown rates has been extended for another year in the wake of the pandemic and its after effects.

As usual, where clients receive pensions from their SMSF, we will advise the minimum pension requirements upon completion of their 2022 Financial Accounts and Returns.

“ Many self-funded retirees in particular to now qualify for the many benefits afforded by the card, discounted pharmaceutical benefits. ”



Commonwealth Seniors Health Card Thresholds

From 1 July 2022 the threshold to qualify for the Commonwealth Seniors Health Care card will increase from \$58,000 to \$90,000 for a single person and from \$91,000 to \$144,000 for a couple.

This is a significant increase which will enable many self-funded retirees in particular to now qualify for the many benefits afforded by the card, discounted pharmaceutical benefits in particular.

At the time of writing, this measure has yet to be legislated but had previously received support from both sides.

Business News

Employment Changes

Superannuation Guarantee Rate Increases To 10.5%

All employees will effectively receive a 0.5% pay rise from 1 July 2022 as the superannuation guarantee rate will increase to from 10% to 10.5%. This increase effects all wages paid after this date.

Employers should ensure the rates in their payroll software have been updated before processing any pays in July. In many circumstances the software provider will update their software automatically, but the settings should be carefully checked before the first pay run in July.

Employee Stapled Super Fund Details

Since 1 November 2021 there has been an extra step to ensure employers comply with the Choice of Super Fund rules for their employees. If a new employee does NOT choose a super fund, most employers need to request the employee's 'stapled super fund' details from the ATO rather than impose the employer's default fund as previously applied. The employer's default fund will then only apply if the ATO does not have a fund recorded for that employee.

In order to access the employee's detail you need access to the ATO's Online services for business.

Super Guarantee Scheme Changes

From 1 July 2022 the \$450 monthly minimum wage rule will be abolished. This threshold had covered casual employees not doing many shifts in a month or disappearing after just a day or two of work so that an employer did not have to make small contributions. Again your software needs to be updated to ensure it no longer applies the threshold.

Also, from 1 July 2022 new rules relating to minors provide that superannuation is now mandatory for employees under the age of 18 if they work more than 30 hours per week, regardless of how much you pay them.

Single Touch Payroll Phase 2

Single touch payroll reporting has been expanded so that employers are required to report additional information to the ATO every time they process a pay-run.

The requirements provide for more detailed reporting of different wage categories and providing more detailed information which will be accessed by Centrelink for their assessment purposes. This also replaces the paper Employment Separation Certificate.

To comply the software needs to be updated, and providers such as MYOB have deferred start dates, and payroll categories and codes then updated so that they align with STP 2 requirements.

On Boarding New Employees

As payroll software advances to meet the ATO's STP requirements, it also provides a means for a two way link with a new employee. Hence, software such as MYOB will often allow the employer to email an electronic 'on boarding form' to a new employee so that they can input their TFN, address, super details, etc. and have these automatically updated in the software ahead of the next pay run.

This automates the previous paper Employment Declaration form whilst also updating their superannuation information.

We highly recommend that you DO NOT PAY an employee until they have provided ALL the necessary details to meet the STP requirements. Employees' with missing details will hold up the end of year confirmation process and inconvenience both the employer and all other employees.

Taxable Payments Reporting

Where a business pays sub-contractors in the building and construction, cleaning, road freight, information technology and security industries they are required to advise the ATO by 28 August following the end of a financial year of the payments made to these sub-contractors during that financial year.

As with employees, setting up those sub-contractors in your on-line software can mean this reporting process is automated using STP reporting.

The Taxable Payments Reporting system looks set for an overhaul and business will have the option to report these payments via their software on the same lodgment cycle as their Business Activity Statements (eg: quarterly). The Government expects this to be in place by December 2023.

Hence, whilst this may seem a short time off, clients with sub-contractors and employees should make the effort to understand and use these aspects of their on-line software as early as possible to automate these otherwise onerous reporting requirements.

Social News

We are sad to announce that our amazing Office Manager, **Merilyn** has decided to move on and will leave the firm in early July. Merilyn, or Mrs Colville, as she is sometimes known, has spent more than 17 years with us. Her detailed knowledge of clients and the practice, dedication, care and thorough organisation of the admin team is going to be sorely missed. We wish her all the best for the future.

Ashlyn is taking over Merilyn's role as Office Manager adding to her responsibilities in the tech side of the practice.

Jennifer joined the practice in January and continues to excel in the area of administration.

After 8 years, **Dianne** is also leaving the practice, taking up an opportunity to reduce her weekly hours as she marches toward retirement. We wish Dianne all the very best and thank her for her dedication and calm, nurturing influence.

Paul and **Lisa** are also leaving the practice to follow a new path. We thank them both for their contribution to Colville over the years and wish them both success in their future endeavours.

We congratulate **Kristi** on the birth of her little boy, Easton, last August. After a short period of maternity leave, Kristi will be returning on a part-time basis in July.

During the year, both **Anthony** and **Brett** completed their respective post graduate studies and have attained CA status. Congratulations to both.

Nicholas is progressing well with the CPA program and **Will** has attained outstanding results in his Accounting degree.

In coming months **Fred** will be exploring the possibilities afforded with the remote workplace and will finally spend more time working from his Mt Beauty office. At least we got something out of lockdown!

Staff holidays – We wish!

Can't make it in to see us?

Consider emailing to **mail@colville.com.au**. or use the Colville portal.

We can usually prepare simple returns within the week at no extra cost. Don't forget to include your contact phone numbers or email addresses so we can verify any items with you.

Tax Time Checklist

PERSONAL INFORMATION

- ☐ Bank account details for refunds
- ☐ Home email address

EMPLOYMENT AND PENSION INCOME

Is available via the Tax Agent Portal, however please provide anything you have.

DEDUCTIONS

Diarised Items:

- ☐ Travel - work-related kms
- ☐ Car expenses - petrol
- ☐ Travel - overseas, interstate
- ☐ Home office hours

Receipted Items:

- ☐ Car expenses - Rego, insurance, repairs & petrol
- ☐ Uniforms / footwear / dry cleaning
- ☐ Union fees
- ☐ Membership & Subscriptions
- ☐ Tools of trade
- ☐ Computer, printer, internet
- ☐ Income protection insurance
- ☐ Donations

GENERAL ITEMS

Medical and Superannuation

- ☐ Personal superannuation contributions - Self & spouse
- ☐ Acknowledgement from your super fund regarding your intention to claim for personal super contributions. (Or notice of intension)
- ☐ Private Health Insurance Tax Statement

Spouse & Children Details

- ☐ Taxable income
- ☐ Names & dates of birth

INVESTMENTS

- ☐ Interest Income including bank accounts, cash management trusts and term deposits
- ☐ Dividend income
- ☐ Share purchase and sale details
- ☐ Margin Lending loan statements (full year)
- ☐ Managed fund annual tax statements

RENTAL PROPERTIES

- ☐ Estate agent annual statements
- ☐ Rates notices - council and water
- ☐ Insurances
- ☐ Body corporate fees
- ☐ Land tax
- ☐ Repairs and maintenance (invoices)
- ☐ Loan statements (full year)
- ☐ Purchase and / or sale details

Bring your current bank account details (BSB and Account Number)