Greenwich & Co

MAY / 2025

YOUR KNOWLEDGE

INSIDE

Year-end tax planning opportunities & risks

With the end of the financial year fast approaching we outline some opportunities to maximise your deductions and give you the low down on areas at risk of increased ATO scrutiny.

Opportunities

Bolstering superannuation

If growing your superannuation is a strategy you are pursuing, and your total superannuation balance allows it, you could make a one-off deductible contribution to your superannuation if you have not used your $30,000 cap. This cap includes superannuation guarantee paid by your employer, amounts you have salary sacrificed into super and any amounts you have contributed personally that will be claimed as a tax deduction.

If your total superannuation balance on 30 June 2024 was below $500,000 you might be able to access any unused concessional cap amounts from the last five years in 2024-25 as a personal contribution. For example, if you were $8,000 under the cap in each of the last 5 years, you could contribute an additional $40,000 and take the tax deduction in this financial year at your personal tax rate.

To make a deductible contribution to your superannuation, you need to be aged under 75, lodge a notice of intent to claim a deduction in the approved form (check with your superannuation fund), and receive an acknowledgement from your fund before you lodge your tax return. For those aged between 67 and 74, you can only claim a deduction on a personal contribution to super if you meet the work test (i.e., work at least 40 hours during a consecutive 30-day period in the income year, although some special exemptions might apply).

If your spouse's assessable income is less than $37,000 and you both meet the eligibility criteria, you could contribute to their superannuation and claim a $540 tax offset.

If you are likely to face a tax bill this year and you made a capital gain on shares or property you sold, then making a larger personal superannuation contribution might help to offset the tax you owe.

Charitable donations

When you donate money (or sometimes property) to a registered deductible gift recipient (DGR), you can claim amounts of $2 and above as a tax deduction. The more tax you pay, the more valuable the tax deductible donation is to you. For example, a $10,000 donation to a DGR can create a $3,250 deduction for someone earning up to $120,000 but $4,500 to someone earning $180,000 or more (excluding Medicare levy).

To be deductible, the donation must be a gift and not in exchange for something. Special rules apply for amounts relating to charity auctions and fundraising events run by a DGR.

Philanthropic giving can be undertaken in a number of different ways. Rather than providing gifts to a specific charity, it might be worth exploring the option of giving to a public ancillary fund or setting up a private ancillary fund. Donations made to these funds can often qualify for an immediate deduction, with the fund then investing and managing the money over time. The fund generally needs to distribute a certain portion of its net assets to DGRs each year.

Investment property owners

If you do not have one already, a depreciation schedule is a report that helps you calculate deductions for the natural wear and tear over time on your investment property. Depending on your property, it might help to maximise your deductions.

Risks

Work from home expenses

Working from home is a normal part of life for many workers, and while you can't claim the cost of your morning coffee, biscuits or toilet paper (seriously, people have tried), you can claim certain additional expenses you incur. But, work from home expenses are an area of ATO scrutiny.

There are two methods of claiming your work from home expenses; the short-cut method, and the actual method.

The short-cut method allows you to claim a fixed rate of 70c for every hour you work from home for the year ending 30 June 2025. This covers your energy expenses (electricity and gas), internet expenses, mobile and home phone expenses, and stationery and computer consumables such as ink and paper. To use this method, it's essential that you keep a record of the actual days and times you work from home because the ATO has stated that they will not accept estimates.

The alternative is to claim the actual expenses you have incurred on top of your normal running costs for working from home. You will need copies of your expenses, and your diary for at least 4 continuous weeks that represents your typical work pattern.

Landlords beware

If you own an investment property, a key concept to understand is that you can only claim a deduction for expenses you incurred in the course of earning income. That is, the property normally needs to be rented or genuinely available for rent to claim the expenses.

Sounds obvious but taxpayers claiming investment property expenses when the property was being used by family or friends, taken off the market for some reason or listed for an unreasonable rental rate, is a major focus for the ATO, particularly if your property is in a holiday hotspot.

There are a series of issues the ATO is actively pursuing this tax season. These include:

- **Refinancing and redrawing loans –** you can normally claim interest on the amount borrowed for the rental property as a deduction. However, where any part of the loan relates to personal expenses, or where part of the loan has been refinanced to free up cash for your personal needs (school fees, holidays etc.,), then the loan expenses need to be apportioned and only that portion that relates to the rental property can be claimed. The ATO matches data from financial institutions to identify taxpayers who are claiming more than they should for interest expenses.
- **The difference between repairs and maintenance and capital improvements –** while repairs and maintenance costs can often be claimed immediately, a deduction for capital works is generally spread over a number of years. Repairs and maintenance expenses must relate directly to the wear and tear resulting from the property being rented out and generally involve restoring the property back to its previous state, for example, replacing damaged palings of a fence. You cannot claim repairs required when you first purchased the property. Capital works however, such as structural improvements to the property, are normally deducted at 2.5% of the construction cost for 40 years from the date construction was completed. Where you replace an entire asset, like a hot water system, this is a depreciating asset and the deduction is claimed over time (different rates and time periods apply to different assets).
- **Co-owned property –** rental income and expenses must normally be claimed according to your legal interest in the property. Joint tenant owners must claim 50% of the expenses and income, and tenants in common according to their legal ownership percentage. It does not matter who actually paid for the expenses.

Gig economy income

It's essential that any income (including money, appearance fees, and 'gifts') earned from platforms such as Airbnb, Stayz, Uber, YouTube, etc., is declared in your tax return.

The tax rules consider that you have earned the income "as soon as it is applied or dealt with in any way on your behalf or as you direct". If you are a content creator for example, this is when your account is credited, not when you direct the money to be paid to your personal or business account. Squirrelling it away from the ATO in your platform account won't protect you from paying tax on it.

Since 1 July 2023, the platforms delivering ride-sourcing, taxi travel, and short-term accommodation (under 90 days), have been required to report transactions made through their platform to the ATO under the sharing economy reporting regime so expect the ATO to utilise data matching activities to identify unreported income.

Other sharing economy platforms have been required to start reporting from 1 July 2024. If you have income you have not declared, do it now before the ATO discover it and apply penalties and interest.

For your business

Opportunities

Write-off bad debts

Your customer definitely not going to pay you? If all attempts have failed, the debt can be written off by 30 June to claim a deduction this year. Ensure you document the fact that you have written off the bad debt on your debtor's ledger or with a minute.

Obsolete plant & equipment

If your business has obsolete plant and equipment sitting on your depreciation schedule, instead of depreciating a small amount each year, scrap it and write it off before 30 June if you don't use it anymore.

For companies

If it makes sense to do so, bring forward tax deductions by committing to pay directors' fees and employee bonuses (by resolution), and paying June quarter super contributions in June.

Risks

Tax debt and not meeting reporting obligations

Failing to lodge returns is a huge 'red flag' for the ATO that something is wrong in the business. Not lodging a tax return will not stop the debt escalating because the ATO has the power to simply issue an assessment of what they think your business owes. If your business is having trouble meeting its tax or reporting obligations, we can assist by working with the ATO on your behalf.

Professional firm profits

For professional services firms - architects, lawyers, accountants, etc., - the ATO is actively reviewing how profits flow through to the professionals involved, looking to see whether structures are in place to divert income to reduce the tax they would be expected to pay. Where professionals are not appropriately rewarded for the services they provide to the business, or they receive a reward which is substantially less than the value of those services, the ATO is likely to take action.

Need support or have questions? Talk to us today about maximising your outcomes and reducing your risk.

Quote of the month

"The roots of education are bitter, but the fruit is sweet."

Aristotle

Instant asset write-off threshold finally confirmed

It has been a long time coming, but the Government finally passed legislation increasing the instant asset write-off threshold for the year ending 30 June 2025 to $20,000. This was announced back in the 2024-25 Federal Budget but the Government faced a number of hurdles in terms of passing the legislation.

This basically means that individuals and entities who carry on a business with turnover of less than $10m can often claim an immediate deduction for the cost of depreciating assets (eg, plant and equipment) that are acquired during the 2025 financial year as long as the cost of the asset, ignoring GST credits that can be claimed, is less than $20,000.

If you are thinking about purchasing an asset before 30 June 2025 with the hope of claiming an immediate deduction, then please reach out to us to confirm the position. The rules contain a number of tricks and traps which we can help you to navigate.

The threshold is due to drop back to $1,000 from 1 July 2025 unless further legislation is passed to provide another temporary increase to the threshold or a permanent modification.

Property subdivision projects: the tax implications

As the urban sprawl continues in most major Australian cities, we are often asked to advise on the tax treatment of subdivision projects. Before jumping in and committing to anything, it is important to understand the tax liabilities that might arise from these projects.

Unfortunately, many people make incorrect assumptions about the way that subdivision projects will be taxed, often believing that any tax exposure will be minimal. However, the reality is that there are a number of important issues that need to be considered and that could have a significant impact on the overall profitability of the project.

For example, when someone buys a property with the intention of subdividing it into smaller lots and selling them at a profit in the short term this will normally mean that any profit is taxed as ordinary income, rather than being taxed under the CGT rules. This means that the general CGT discount would not be available to reduce the tax liability, even if the property has been held for more than 12 months and it would not be possible to apply capital losses to reduce the taxable amount.

Also, in situations like this the sale of the subdivided lots will often trigger a GST liability, further reducing any after-tax profits generated from the project.

Many people fail to properly estimate the income tax and GST liabilities that will arise from property projects and can end up with a nasty shock when they realise the impact this has on the economic viability of the project.

The ATO has recently updated its guidance in this area, adding a number of new and practical examples to demonstrate how the tax rules will typically apply. The ATO's examples cover the income tax and GST consequences of common property transactions such as property flipping, subdivision projects and property development activities.

For example, in one of the examples the ATO looks at a scenario where the taxpayer repeatedly buys, renovates, and sells properties. They engage in market research, seeking professional advice, taking out business loans, and then carrying out renovations in a business-like manner. The ATO takes the view that the taxpayer is running a business, since the taxpayer's primary intention is to make a profit from the renovations and reselling of the property.

The profits are treated as ordinary income and taxed on revenue account. The CGT provisions don't apply here since the property is held as trading stock. However, GST doesn't apply on this particular situation as long as the properties have not undergone "substantial renovations", which needs to be considered carefully.

On the other hand, in another example the ATO deals with a taxpayer who subdivides the vacant land from their main residence because of ill health and growing debt levels. Since they didn't initially intend to profit from the subdivision and sale of the vacant land, the sale is viewed as the mere realisation of a capital asset rather than a business venture. The activities related to the subdivision are limited to necessary actions for council approval, reflecting a low level of complexity and small scale. The sale of the subdivided lot is taxed on capital account under the CGT rules, qualifying for the general CGT discount if the land has been held for more than 12 months. However, the main residence exemption cannot apply because the land is not being sold together with the dwelling that has been used as the taxpayer's main residence.

You can find the ATO's guide and examples here.

The ATO's updated small business benchmarking tool

The ATO has updated its small business benchmarks with the latest data taken from the 2022–23 financial year. These benchmarks cover 100 industries and allow small businesses to compare their performance, including turnover and expenses, against others in their industry.

While the ATO doesn't use the benchmarks in isolation, small businesses who fall outside the ATO's benchmarks are more likely to trigger a closer examination from the ATO. The ATO uses information reported in business tax return with key performance benchmarks for the relevant industry to identify potential tax risks.

Aside from determining the risk of unwanted attention from the ATO, the benchmarks can also be used to compare your business performance against other businesses in the same industry. The benchmarks could help you spot areas where you might be able to reduce costs or improve efficiency.

The small business benchmarks can be accessed here.

Aside from the small business benchmarks, the ATO also has a business viability assessment tool which can help business owners identify whether there are any obvious financial risks. The ATO consider a business to be viable if it is generating sufficient profits to meet commitments to creditors and provide a return to the business owners. If a business isn't generating profits, the ATO looks at whether the business has sufficient cash reserves to sustain itself.

The business viability assessment tool can be found here.

Please let us know if you would like us to review your business performance and make recommendations on ways that performance could be improved.

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