



Prosper

Clarity Tax Newsletter : Winter 2020

We're moving!

Our first major piece of news is that we are moving premises from North Croydon to the Dandenong gateway township of Belgrave, this coming August.

We moved to the iconic Melba Hall when we started the business 7 years ago. It was somewhat run down and in need of some TLC when we arrived, but we leave this landmark building with fond memories and a tinge of sadness.

Our new office affords us better working space and private interview rooms for our clients. Like Melba Hall it has it's own sense of character set amongst the thriving main street of Belgrave in the beautiful Dandenong Ranges.

Everything else stays the same:

- the same telephone numbers
- the same contact details
- the same expert advice and

our landmark Goddess of Wisdom and Commerce – Minerva – is coming along with us too!

We expect to be fully operational in our new premises from the end of August (dates to be confirmed) and look forward to welcoming clients new and old for a relaxed consultation, or if you want a 'contact-free' tax return, just call us! During COVID Lockdown, this is a preferred method to keep us all safe.

Some Personal and Business Tax Returns can be **easily** done over the telephone.

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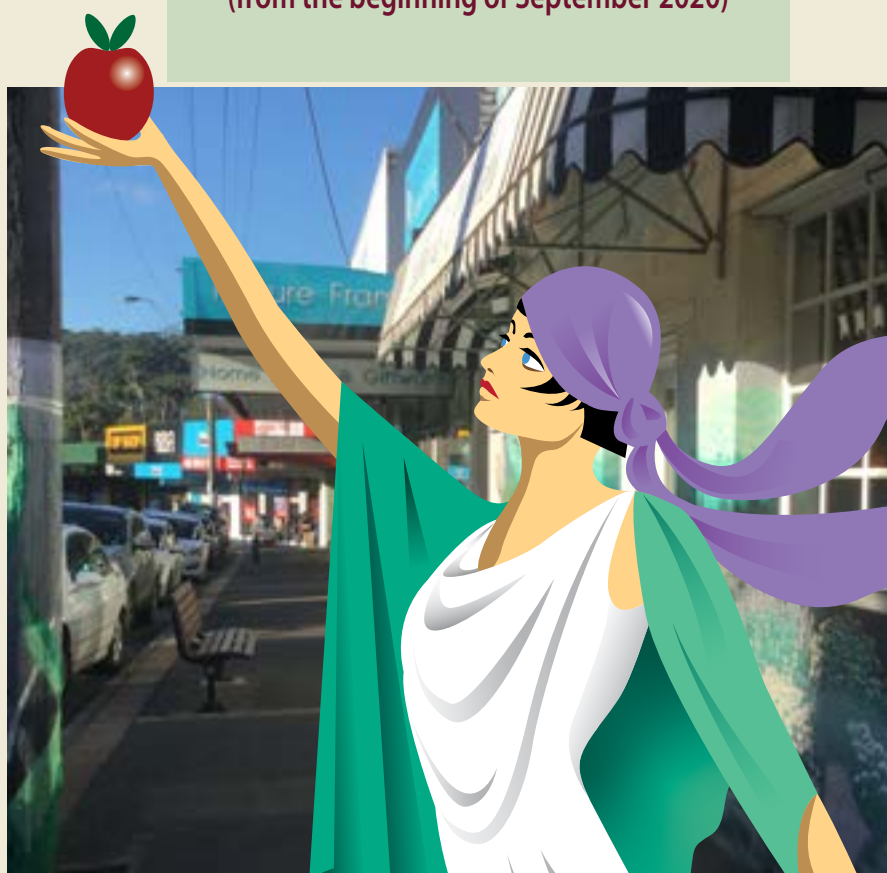
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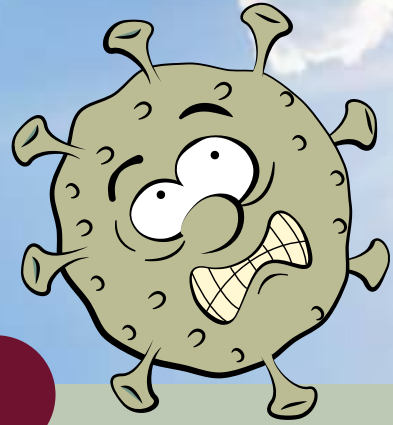
(current & up until the end of August 2020)

1658a Burwood Highway, Belgrave

(from the beginning of September 2020)



Prepare for a new and bright future!



1

Build a Cash Flow Forecast

You have to make a number of assumptions based on research, available data plus known facts such as fixed costs like rent and loan repayments.

Use your best estimates to try to forecast realistic revenues.

Calculating Government entitlements is a priority, that you might be able to claim. Don't forget to include your tax payments (or refunds) and your cash flow forecast should provide you with your likely cash position at the end of each month.

Identify the likely cash shortages and address them before they become critical.

2

Know Your Numbers

Up to date, accurate financial records allow us to work together to make informed business decisions. Can you vary your PAYG instalments? What entitlements do you have to Government incentives like the cash boost, JobKeeper and State Government Grants?

Your numbers tell us where you have been so you can make decisions going forward. Have a snapshot of key financial numbers including your accounts receivable (debtors), accounts payable (creditors) and current bank balances.

We'd be more than happy to sit down with you and crunch the numbers!

3

Renegotiate

An obvious strategy is to reduce your overheads, which could mean renegotiating your rent (home and office).

Landlords will generally want to maintain relationships with long-term tenants and the Government introduced a mandatory code of conduct for all tenants affected by the Coronavirus.

Revisit payment terms with your existing suppliers and you might want to check in with them regarding their pricing policies post-pandemic.

Even look around for alternative options for your suppliers. There may be better or more effective solutions.

4

Remove Non-Essential Expenses

Go through your profit and loss statement, line by line to identify any expenses that could be shaved or eliminated. Do you need the same amount of stock or warehousing? Do you need to maintain the same hours or number of staff? Can you postpone some expenditure?

5

Prepare for the Post-Pandemic Period

Do a **SWOT** analysis to identify your business'

Strengths,
Weaknesses,
Opportunities and
Threats.

This will help you focus more clearly about what you could be doing better and what resources you need going forward.

There will definitely be opportunities in the 'new world' that weren't available before.

An honest self appraisal will help you meet new challenges.

You can look at your business future with fresh eyes!

6

Keep Marketing!

In recessionary times your marketing could be the difference between boom, doom and gloom. Take time to evaluate how your customers (and potential customers) are interacting with your business.

Website Is it current and helpful?

Email Marketing How often are you communicating with customers?

Direct Marketing Consider print marketing to cut through.

Video Extremely effective and engaging on social media platforms.

Social Media Have you a planned schedule with engaging content?

Press Releases Media outlets are hungry for content. Feed them!

This pandemic has taken a sledge hammer to everything we knew about the economy.

We WILL get through this and with a little foresight and planning, we can all come out on the other side strong and hungry for success!

Here are some of Clarity's top tips to help us take a step back, dust ourselves down and prepare for a new, exciting future.



Working from home?

One of the long-term impacts of the Coronavirus may be a fundamental change to how businesses operate with new research suggesting that up to 50% of the workforce expect to continue to work remotely after the virus is contained.

If you are working from home, you may be able to claim a deduction for some of the expenses for your 'office' area.

There are two parts to this:

1. Working from home during COVID-19.
2. Running a business from home.

To claim a deduction, you must have spent the money (not been reimbursed by your employer), the expense must directly relate to your

employment and you must keep a record to prove it. If you receive an allowance from your employer instead of a reimbursement, you must include the allowance as income on your tax return but you can still claim the deduction.

Working From Home During COVID-19

The ATO are accepting a temporary simplified method of calculating additional running expenses. Expenses **not** claimable under COVID-19 provision include; occupancy expenses such as mortgage interest, rent or rates nor the cost of general household items such as tea, coffee, milk which your employer would otherwise provide.

Reporting method options are shown on the next page.

Running Your Business From Home

This is where your home is also your principal place of business. If only some of your business is conducted from home, refer to the Working from Home section.

Deductions claimable:

- The cost of a room's utilities – apportioned between business and private usage based on actual use.
- Phone costs – for a telephone used exclusively for business rental and calls is claimable, not installation costs. If used for both business and private, business calls are claimable.
- Depreciation of office plant and equipment – desks, chairs, computers, etc. Where a computer is also used for

non-business purposes, the claim must be apportioned between business and private usage. Curtains, carpets and light fittings can also be depreciated.

- Rent, mortgage interest, insurance, rates are all occupancy expenses and a portion of these costs relating to the office room or workshop used as a place of business can be claimed. Commonly calculated base on the proportion of total floor area of your home.
- Capital Gains Tax implication – although you can generally ignore

Capital Gain or loss on selling your home under the main residence exemption, where your home is your principal place of business you will receive partial exemption based on factors such as the proportion of your floor area used for business purposes, the period used, the 'absence' rule and whether it was your workplace before or after 20th August 1996.

More information about Running Your Business from Home and claiming deductions is also available on the [ATO website](https://www.ato.gov.au)

The Shortcut Method

You can claim a deduction of **80 cents** for each hour you work from home due to COVID-19 as long as you are:

Working from home to fulfill your main duties, not just occasionally checking emails or taking calls.

Incurring additional deductible running expenses as a result of working from home:

- Electricity used for lighting, cooling, heating and running electronic items such as your computer, gas heating expenses.
- Depreciation and repair of capital items such as home office furniture & fittings.
- Cleaning costs.
- Phone costs including depreciation of the handset.
- Internet expenses.
- Consumables such as printer ink, paper and stationery.
- Depreciation of computer, laptop or similar device used for work.

By using the shortcut method you cannot claim further for the expenses listed above and you must keep a record (time-sheet, diary notes or rosters) of the number of hours worked at home as a result of COVID-19. To claim the shortcut method on your tax return – include the note 'COVID-hourly rate'.

COVID Working from Home deduction methods

Fixed Rate Method

You can elect the fixed rate method if you claim all of these:

- A rate of **52 cents** for each hour you work from home for heating, cooling, lighting, cleaning and the depreciation of the office furniture.
- The work related portion of your actual costs for phone, internet, computer consumables and stationery.
- The work-related portion of the depreciation of your computer, laptop or similar device.

Actual Cost Method

Your claim is the actual work-related portion of all your running expenses, calculated on a reasonable basis. More information on claiming home office expenses is available on the ATO website.

Remote workers are shown to carry out 48% more work above and beyond minimum requirements.

Source: Gartner



Business structure types

We are often asked about the different business entity types. It's quite a complicated subject in some cases, but here is a brief description of each of the main structures.

Each has its own benefits and drawbacks, so we will be happy to talk you through the best option for your own personal circumstances.



Sole Trader

As a sole trader, you are effectively operating as an individual taxpayer and therefore your business profit is taxed at individual income tax rates.

You report your business income in your individual tax return.

The amount of tax you pay will depend on:

- Your level of business profit,
- Income from other sources including wages, interest and
- Any tax-deductible expenses.

As a sole trader, you can offset any tax losses against your individual income. For example, if your business makes a loss you can offset that amount against any other income (salary etc.).

There is no tax payable on the first \$18,200 of income and a sliding rate thereafter:

\$18,201 – \$37,000

\$0.19 for each \$1 over \$18,200

\$37,001 – \$90,000

\$3,572 + 32.5c for each \$1 over \$37,000

\$90,001 – \$180,000

\$20,797 + 37c for each \$1 over \$90,000

\$180,001 and over

\$54,097 + 45c for each \$1 over \$180,000

As a sole trader, in certain situations you can receive a 50% discount on Capital Gains which you need to include in your overall income.

Company



Companies pay a flat rate of tax on all their taxable income at these rates:

27.5% base rate for companies that have an aggregated annual turnover less than \$50m,

30% rate that for companies that have an aggregated turnover of more than \$50m.

You can't offset any tax losses against your individual income. Instead, the losses are carried forward to be offset against future company profits.

Shareholders own shares in the company which can distribute their profits to shareholders by issuing dividends. These dividends are taxable in the hands of the shareholders; however, the Australian imputation system provides shareholders with a tax credit for the tax already paid by the company on those profits.

Companies do not receive the 50% Capital Gains Tax (CGT) discount like sole traders and individuals. However, if your company is a 'small business entity', you could be eligible for the Small Business CGT Concessions if:

- the business has an aggregated turnover of less than \$2M, or
- the company has a total net value of assets not exceeding \$6M.

Under some circumstances, the Small Business CGT Concessions allow you to disregard some or all of the Capital Gains made from the sale of an asset.



Capital Gains Tax (CGT)

If you sell a capital asset, such as real estate or shares, you usually make a **Capital Gain** or a **Capital Loss**. This is the difference between what it cost you to acquire the asset and what you receive when you dispose of it.

You need to report Capital Gains and losses in your income tax return and pay tax on your Capital Gains. If you make a capital loss, you can't claim it against your other income but you can use it to reduce a Capital Gain elsewhere.



Business structure types



Trust

A family trust (or discretionary trust) is an agreement where a person or a company agrees to hold assets for others' benefit – usually their family members.

It is often set up by families to own assets and they don't pay tax. Trusts distribute their 'net income' and Capital Gains to their beneficiaries who in turn pay tax in their own right.

The word 'discretionary' relates to the trustee's powers to distribute the net income and any Capital Gains made by the trust at their discretion each financial year.

They decide how much income (if any) each beneficiary receives each year. By contrast, a unit trust distributes the trust income and Capital Gains based on the number of units held by the unit holders.

A family trust offers some level of protection over your personal assets. For example, in most situations, a creditor cannot access a trustee's personal assets in the event of bankruptcy.

Likewise, creditors cannot take assets held by a company trustee in the event of that company's liquidation, subject to some exceptions.

It's vitally important that you set up the trust with the right trustee and beneficiaries and annual tax planning is crucial to ensure the net income is distributed to the beneficiaries to minimise the tax liability.

A word of warning regarding **Personal Services Income (PSI)** rules if you run your business by yourself. These rules apply where you produce your income mainly from your personal skills or efforts as an individual.

Commonly, professionals in the financial industry, information technology consultants, engineers, construction workers and medical practitioners are caught under the PSI rules. If the ATO classifies your income as PSI, they will ignore your business structure and your business profits will be taxed as if you were an individual taxpayer. As a guide, if you have employees or you are selling goods, the PSI rules are unlikely to apply.



Partnership

Partnerships are formed when two or more people (up to 20 people) go into business together. Partnerships are governed by the Partnership Act 1958.

There are several forms of partnership including general partnerships and limited partnerships.

A general partnership is where all the partners are equally responsible for the management of the business and each partner has unlimited liability for the debts of the business.

A limited partnership is where the liability of one or more of the partners for the debts and obligations of the business is limited.

The partnership has its own tax file number and lodges an income tax return, however, it does not pay tax. The profit or losses of the partnership are divided among the partners and the partners pay their own tax. Partners entitlement to a share of the profit or loss will be based on the terms detailed in the Partnership Agreement.

Subject to certain conditions, a partner's share of any tax losses may be offset against other personal income.

A partnership is not a separate legal entity and partnerships allows tax incentives and tax-free Capital Gains concessions to be passed through the partners.

Summary

Your choice of business structure is a critical business decision and whenever we provide advice on business structures, we always take into account issues like:

- Minimisation of income tax,
- Protection of your personal assets,
- The potential admission of new business partners or investors,
- Legal requirements in your industry,
- Entitlement to discount Capital Gains Tax concessions.

When evaluating alternative business structures, you also need to take into consideration the likely profitability of the business, the current tax position of all stakeholders and the risk profile of the industry. In some industries, participants often have a preference for the sole trader or company option. Consequently, we often find the business structure is a compromise based on the relative importance of these issues.

This article does not substitute for professional advice and every case is different. If you need advice on choosing the right structure for your business, [we invite you to talk to us](#).



Underpaid staff?



Economists at PricewaterhouseCooper, say that Australian workplaces are underpaying workers by an estimated \$1.35 billion every year. They estimate 13% of Australia's working population is affected by wage theft.

The construction sector is the worst offender, with \$320 million in estimated underpayment, while retail is estimated at \$180 million.

How Can This Happen?

Payroll in this country is complex with more than a hundred awards to interpret. Within each award there are various pay rates including ordinary time earnings, overtime, penalty rates, public holiday rates, weekend rates, shift allowances and travel allowances. When setting up an employee in a computerised payroll system you need to understand these rates and various allowances. Groups like the Council of Small Business Organisations Australia (COSBOA) and the Australian Retailers Association (ARA) have argued workplace laws are too complex and need to be streamlined but don't hold your breath on any changes!

For a small business owner with a single employee there's no excuses. They must follow a number of steps when on-boarding an employee including ticking the right boxes in their payroll software. There are check boxes for things like an existing HECS debt, various leave entitlements and superannuation calculations. When things go wrong employers tend to blame the software but the program is only processing the data that is entered into the system. Tick the wrong box and you could innocently trigger a series of underpayments until you or the employee detects the issue. This could be weeks, months or even years later like the Woolworth case.

There have been a number of high profile businesses in the media recently for all the wrong reasons.

Large employers and major corporates have been found to have underpaid their staff by considerable amounts.

Payroll is a very complex part of business and it can be easier than you might think to get it very wrong!

So, what is the message for small business owners?

We run the payroll for some of our clients and we have checklists in place and review employment agreements for new staff members. We also review time-sheets and run reconciliation reports to cross check the data. It's certainly not just a simple 'tick and click' process.

Most employees don't even know they are underpaid because they trust their employer will get it right. Ultimately the onus is on the employer to get it right.

If your business has fallen behind on its Superannuation Guarantee obligations and is eligible for the amnesty, we urge you to contact us today so we can examine your processes.

Fair Work Ombudsman (FWO) detected a high level of 'wage theft' in regional Victoria and NSW. The FWO has revealed some disturbing results from this series of inspections conducted in the Albury/Wodonga, Ballarat and Wollongong regions, for example:

- Just under half (47%) of the 489 businesses that received surprise visits (including retail outlets, takeaway shops, cafes and bars) were in breach of Workplace Laws in some way.

- Over a third (35%) of audited businesses were found to be underpaying workers their minimum hourly rates, while 12% weren't paying correct penalty rates.
- More than half (63%) of employers audited were 'unaware' of all applicable workplace relations obligations, 15% had 'misinterpreted' award requirements and 9% stole wages because of a 'business decision' such as paying a flat rate.

Wage theft was the most common breach identified by FWO inspectors followed by record – keeping failures.

Sandra Parker (FWO) said, a "lack of awareness" was behind the majority of non-compliant cases with employers paying fines totaling more than \$30,000. Parker went

on to say, "Australia's minimum pay rates are not negotiable and employers in the fast food, restaurant and café sector need to actively check that they are paying their staff correctly".

The moral of the story is that you have clear responsibilities as an employer and the right software is absolutely

critical. Have a clear on-boarding process for your staff and if you have any queries about your payroll or software please don't hesitate to contact us.

It's certainly not just a simple 'tick and click' process.



Need help with GST or BAS?

GST accounting and BAS reporting are the bane of most business owners lives!
At Clarity Taxation, we take the stress out of the whole process.

Clarity are able to help you with advice on GST registration – the advantages and disadvantages of being GST registered.

What is the difference between Cash Accounting or Accrual Accounting?

What expenses can be claimed?

What if I am late with my BAS?

We get asked these questions frequently – we can help!

We have a BAS Preparation Service and can lodge your BAS for you.

If you have any questions about GST or BAS, then Clarity can help!

👉❤️😌 **Telephone: 9726 4650** 👉❤️😌

Letting you get on with what you do best ...

TAXING MOMENTS



No Mr Postlethwaite, you can't include your dog's business in your tax return.

Tax Return Time!

We are waiting eagerly for that relaxing time of the year when the Tax Returns need to be completed!

Don't forget we have checklists for you to make sure you include all the information we will need to complete your Returns for you.

Links below are provided to take you to our on-line checklists, which we suggest you print off and check all the boxes.

It will make it easier to complete the paperwork for us and save you time and money too!

[Personal Tax Return Checklist is here](#)

[Business Records Checklist is here](#)

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