WFH, write-offs…EOFY in the COVID age

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Better known by the clumsy acronym EOFY, End of Financial Year long has been redolent of a last-minute rush to find the receipts in the shoe box, or consumers flocking to car dealers and electronics stores for those loudly-telegraphed 'hurry on down' deals.

This June is no exception.

The only difference is the call to action has been accentuated by the coronavirus, which has left individuals and small businesses scrambling to not only determine eligibility for any one of the dozens of COVID-19 relief schemes devised by federal and state governments, but get their head around any tax implications or broader changes.

And the clock is ticking towards June 30, leaving a narrow window to take action to minimise current-year tax liabilities.

Ahead of an expected flood of queries, Australian Taxation Office assistant commissioner Karen Foat today provided further information on the "range of different approaches" this year given many people were receiving different types of income or could potentially access new deductions.

"Death and taxes are a certainty so make sure your things are in order," adds Andrew Goldman, the managing partner of GFM Gruchy Accounting.

Home is where the heart (of business) is

For the legions of white-collar employees working at home on the kitchen bench, deductibility issues loom large in the countdown to EOFY cut off.

The ATO can't do much about those distracting kids – or spouses for that matter. But the taxman has eased the paperwork burden with "shortcut" deductibility rules that allow a flat 80 cents an hour rate to meet all home office expenses.

Assuming a diligent eight-hour day, that's $32 per week.

The ATO has also relaxed the rules around needing to have a dedicated work space (such as a study); and allows more than one member of a household to claim expenses using the shortcut method.

The temporary measure applies from March 1 to June 30. But given that most office-based workers are being implored to continue to WFH, fingers are undoubtedly crossed that it's extended into next financial year.

Goldman notes that employees who had an existing work from home arrangement prior to 1 March can continue to calculate their work from home tax claims using the pre-existing methods (fixed rate or actual cost).

The fixed method is based on 52c an hour to cover energy costs, plus the work-related component of expenses such as stationery and the internet.

"Consult your tax advisor to determine which method (or combination of methods) best suits your circumstances," he says. "It is not compulsory to use the shortcut method if another method provides a greater benefit."

When too much cash is a problem

Despite the footage of the queues of the jobless snaking around Centrelink offices, many older people have excess cash because their spending has reduced faster than any reduction in income.

“They have been buying takeaway coffee and that’s about it,” says Sanctuary Cove based financial planner Neil Heriot, of Boston Private Wealth.

In some cases, adds Adelaide financial strategist Theo Marinis, they literally have more cash than they know what to do with.

The government is ameliorating this enviable problem by halving the minimum amount that retirees are required to draw from their account-based pensions.

The measure aims to prevent funds from selling down long-term or growth assets at an inopportune time, to pay their normal pension.

For example, superannuants aged under 65 only need to withdraw 2 per cent rather than 4 per cent, while the draw down for 65 to 75-year olds has reduced to 2.5 per cent from 5 per cent.

The government introduced the draw down requirement in the first place to ensure that superannuation did as intended: to fund the member’s retirement, not to amass a tax-advantaged kitty for undeserving children.

Marinis says the option of halving the drawdown was also made available during the Global Financial Crisis but wasn’t widely used. “This time around clients are saying I don’t need the income I had because I can’t spend it,” he says.

“By taking the (50 per cent reduction) you are preserving the balance and using cash in the bank rather than in super.”

He cautions funds will automatically reduce the drawdowns from July 1 2020, so it is up to individuals to request more than the half minimum.

Using the reduced drawdown rates is not compulsory, so members can revert to a higher drawdown when the full effect of reduced earnings (such as from any reduced dividend income) becomes apparent.

Top up with super

As with previous years, workers are able to contribute up to $25,000 as concessional (tax deductible) super contributions in the 2019-20 year. This includes the compulsory employer contributions.

Those with idle cash and an eye to their golden years can also contribute $100,000 in non-deductible contributions (so long as they don’t breach the pension balance cap of $1.6 million).

The deductible payments are taxed at 15 per cent at the fund level, while the non-deductible contributions don’t incur tax.

Boston Private Wealth’s Heriot says the added attraction of making additional contributions is that because share markets have declined, contributors receive more units in the market-linked component of the funds than they would have when the market was more bullish.

But a word of warning from the experts: don’t leave contributions to the eleventh hour of June 30 to enable the funds to process the payments.

https://www.westpac.com.au/news/money-matters/2020/06/wfh-write-offs-eofy-in-the-covid-age/

Capital gains and losses

At the height of the corona-crisis many investors were panic selling shares as quickly as shoppers were amassing toilet paper.

As a result, many of them crystallised capital gains despite the sharp falls.

There's a narrow opportunity to offset the gains by selling loss making shares – or indeed other assets – before June 30.

Sally Huynh, a Brisbane based adviser at Shadforth Financial Group, says that post June 30 there's scope for re-investing the funds in the market, but cautions that the investor needs to demonstrate a cogent financial strategy rather than the mere motive of avoiding tax.

"For example, don't sell or buy back exactly the same thing in the same amount. While every case is different it's not just about tax, but the long term structure of the portfolio.''

Write it off

"As part of prudent business and tax planning all SMEs should consider the instant asset-write off and investment incentive currently being offered," says CPA Australia tax adviser Elinor Kasapidis.

Kasapidis is referring to the concession that allows businesses with turnover under $500 million to deduct fully and instantly a newly purchased business-related item up to the value of $150,000, rather than depreciate it over a number of years.

With many business owners out there readying to assess their personal and work tax affairs, it's worth being across after this week being extended until the end of the year.

In short, the enlarged measure applies on equipment purchased and ready for use between March 12 and December 31. Previously the concession applied for enterprises with turnover up to $50 million, with a per-item limit of $30,000.

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