

# **rdl** overview

**Spring 2021**

**INSIDE • Are COVID-19 Grants & Funding Tax Free? • Residential Property Tax Traps • Removing the \$450/month Threshold for Super • Navigating The Crypto Tax Maze • Minimum Pension 50% Reduction Extended 21/22 • ACNC Reporting Changes • SMSF Funds Now With 6 Members**



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# Are COVID-19 Grants and Funding Tax Free?



Most people would think that money provided by the Government to support people and business during a crisis would be tax free. Otherwise, it's like giving money with one hand and then taking it away with the other, isn't it?

But, the tax laws don't work like that. To make a payment tax-free, legislation is required to enable it to be classified as exempt income or non-assessable non-exempt income. In general, any income received will be assessable unless

the Government has legislated for it to be tax-free. JobKeeper for example was not tax free and anyone who received it in 2020-21 will need to declare it in their income tax return. Businesses also will need to declare JobKeeper income in their tax return even if the full amount flowed directly to employees.

At the Federal Government level, legislation was recently passed to declare the COVID-19 Disaster Payment tax free. Prior to this, disaster recovery grant payments to primary producers and small businesses for floods between 19 February and 31 March 2021 were also made tax-free. Other payments however, such as the Pandemic Leave Disaster Payment, are taxable.

The Treasurer has also been granted the power to make COVID-19 relief provided by the States and Territories tax-free but only from 13 September 2020, and only if they request the Commonwealth Government to make it tax free. If you're confused, it's not surprising. The result is a mix of tax treatments depending on what support you received and from whom.

To date, only a series of Victorian business grants are tax-free. The recent business grants in New South Wales, Queensland and South Australia have not as yet been declared tax free (but we expect that this will change).

The general rule is that grants are likely to be taxable unless they are specifically excluded from tax. If the grant relates to your continuing business activities, then it is likely to be included in assessable income for income tax purposes. The position can be different

in cases where the payment is made so that the entity can commence a new business, or cease carrying on a business. The good news with all this is that your RDL accountant can sort out for you what is taxable and tax free, so you don't need to worry.

**Matthew Hung**

*Director – Audit, Tax and Business Services*

**“Business is the art of extracting money from another man's pocket without resorting to violence.”**

Max Amsterdam

# Residential Property Tax Traps



With so many people now owning residential investment properties and looking to reap the potential tax benefits, it is only reasonable to expect that the Australian Taxation Office (ATO) will be keeping a close watch on rental property details in tax returns. There are many potential tax traps that rental property owners can fall into, so what are some of them and how can you avoid them?

## **Repair or Improvement?**

Review your repairs and maintenance deductions for items which should be categorised as capital works and claimed over a number of years. This may include your kitchen renovation, new carport and even the fence

replacement. The trap here is that though you may claim an immediate deduction for expenditure to repair or replace existing parts of the property that are subject to wear and tear, an immediate deduction is not allowed if you decide to upgrade or improve the property. Any works that change the structure of the property will likely fall into this category and need to be claimed over a number of years.

## **Loan re-draws**

It is best to not redraw from your investment loan for a private use. This includes taking money out to finance the purchase of a new home or vehicle or to finance a holiday. If this situation occurs, an interest deduction will only be allowed on the portion of the loan related to the rental property.

## **Buy new**

Except in the case of some transitional provisions, since 9 May 2017, residential property owners have only been able to claim depreciation on new assets, such as heaters, appliances, and floor coverings. This means being able to claim if you, for example, replace the dishwasher with a new one from the appliance store, but not being able to claim if you happen to pick up a near-new one for a bargain price on Gumtree. It also means not being able to claim for depreciating assets that already existed when you first purchased a residential property, unless it was

## Removing The \$450 Per Month Threshold For Employer Super

In recent times, the government has focussed on policies to make superannuation more accessible, particularly for women and those in part-time and casual employment.

Under the current rules, employer superannuation guarantee contributions are not required where an employee's wage is less than \$450 per month.

In the 2021-2022 Budget, the government proposed to remove this \$450 per month minimum threshold effective from 1 July 2022. This will increase the number of employees who will be eligible for employer super, with Treasury estimating that an additional 300,000 individuals will receive superannuation guarantee from their employment.

This will be welcomed news for casual workers, workers with multiple employers but earning less than the threshold, or workers with fluctuating hours month-to-month who previously might not have earned enough to be eligible for mandatory employer super contributions.

Employers should be also aware that this may impact their payroll processes as more of their employees will be eligible for superannuation, including workers employed on a casual basis, adding to the cost and compliance burden on their business. If you want to know more just give us a call.

**David Tong**  
*Senior Manager – Tax and Business Services*

a new property. This rule only applies to the fittings in a property. You can continue to claim for the building structure at either 2.5% or 4% of the cost depending on when the construction commenced. When claiming depreciation on an existing building, remember to make sure you have a report from a quantity surveyor to back your claim.

### **Travel**

Remember not to claim a deduction for travel costs you incur to visit or inspect your residential investment property. This has not been an allowable deduction since 1 July 2017, even if you have legitimate reasons for having incurred the cost.

### **Recordkeeping**

Make sure all the rental expenses being claimed legitimately relate to renting out your property and are backed by receipts or other supporting records. Costs that relate to your private use of the property (eg personal use of the rental property at the beach) cannot be claimed as a tax deduction.

Your RDL accountant will provide the help you need to keep you well away from these tax traps.

**Eunice Samraj**  
*Accountant – Tax and Business Services*

# Navigating The Crypto Tax Maze



The use of cryptocurrency has increased dramatically in this digital age. If you have bought, sold, received or used cryptocurrency like Bitcoin, you are likely to fall into one of four primary categories listed below. So what are the different tax implications for each group?

## **Traders**

Firstly, let's look at traders who buy and sell regularly. Their intention is to make a profit by trading a few times a day or perhaps once a week in an organised manner. The holding of cryptocurrency is on a revenue/business account and treated as trading stock, in the same way as groceries for a supermarket operation. The sale of cryptocurrency is recorded as income, and purchases are essentially expenses. Traders work out their profit by adding up all their sales

for the financial year and then deducting the cost of the currency that was sold, together with any other expenses they incurred to operate, such as IT costs, office expenses, etc. The net profit from trading is subject to tax at their tax rate.

## **Investors**

Next, we have the investors. This group buys cryptocurrency to hold for the long term capital growth. The cost of the cryptocurrency as well as any associated acquisition and disposal costs are added together to produce the "cost base" of the investment. Similar to a shareholder investor, each cryptocurrency purchase is recorded as a separate investment. When the cryptocurrency is eventually sold, the difference between the cost base and the sale proceeds represents the gain or loss on the investment. These investors may be eligible for the 50% capital gains tax discount if they have held the cryptocurrency for at least 12 months. The net capital gain or loss will be reported in the tax payer's tax return, and taxed at their tax rate.

## **Private users**

The third group are the personal users of cryptocurrency. They do not trade to make a profit like the traders or invest for long term gain. Instead, they use cryptocurrencies to pay for personal goods and services like home delivery meals or utility bills etc. They can get the benefit of any increase in the value of their cryptocurrency and the gain is not taxable as long as it was for personal use and the purchase cost was less than \$10,000.

## Business

The last group are business operators that receive cryptocurrency in exchange for goods or services rendered and/or pay expenses with cryptocurrency. Such businesses need to record the market value of relevant cryptocurrency transactions in Australian dollars in their annual tax returns. This means, for example, converting the payment an expense paid in Bitcoin to Australian dollars and recording it in the financial records for the business. If an employee sacrifices some of their salary for cryptocurrency, the employer will be subject to Fringe Benefits Tax, in the same way as if the employer were to provide any other fringe benefit. If there is no salary sacrifice arrangement in place, remuneration payments to employees using cryptocurrency will be subject to the normal employer tax withholding rules.

The ATO has made it clear that the use of cryptocurrency is well and truly on its radar, with a crackdown earlier this year on 100,000 taxpayers who had previously failed to report cryptocurrency transactions. The ATO has stated that it will employ data-matching methods to link transactions from cryptocurrency-designated service providers to tax returns as part of its compliance activities. Your RDL accountant can help you to navigate these rules so you can have peace of mind.

**Kent Lim**

*Manager – Tax and Business Services*

## Minimum Pension 50% Reduction Extended To 2021 /22

The Prime Minister announced on 29th May 2021 that the government will extend the 50% temporary reduction in the superannuation minimum drawdown rates for another year as a response to the COVID pandemic. This announcement has now been enacted in law.

Superfund members in pension phase can take comfort that they can reduce their minimum pension for another year, and not be forced to sell investments to fund their minimum pensions.

The table below summaries the minimum pension drawdown rates for the year ending 30th June 2022. The minimum pension is calculated as the drawdown rate multiplied by the member's superfund balance on 30th June 2021. There has not been an announcement in relation to the drawdown rates for the 2023 financial year as yet.

Age on 1st July 2021	Drawdown rates for 2022 financial year (%)
Under 65	2
65-74	2.5
75-79	3
80-84	3.5
85-59	4.5
90-94	5.5
95 or more	7

**David Tong**

*Senior Manager – Tax and Business Services*

# ACNC Reporting Changes

The Government has recently announced changes to ACNC reporting requirements, subject to amendments in legislation expected to be enacted later this year.

## Increase in Thresholds

For the 2021-22 financial year onwards, the ACNC thresholds will increase to the following:

Size	Revenue	Minimum reporting requirements
Small	Less than \$500,000	ACNC Annual information statement (AIS)
Medium	Between \$500,000 and \$3 million	AIS. Reviewed financial statements in accordance with some accounting standards
Large	More than \$3 million	AIS. Audited Financial statements in accordance with some accounting standards.

## Key Management Personnel Remuneration

Starting with the 2022 AIS, large charities with two or more key management personnel will be required

to report remuneration paid to such personnel on an aggregated basis. Directors or committee members are considered key management personnel. This is likely to affect nearly all large charities.

Many charities have volunteer boards so it is possible that the aggregated remuneration of key management personnel might disclose the remuneration of just one employee. We will need to wait for the legislation and further guidance to determine whether provision is made to avoid this.

## Related Party Transactions

The 2023 AIS will require all charities to report transactions with related parties. These are transactions with key management personnel, their close family members or entities that those people have influence or control over. They could include the payment of wages, donations, loans, purchases or sales of goods and services.

We expect that there will be further ACNC guidance and resources as these changes are implemented, and we will be keeping clients informed.

**Claire Harris**

*Manager – Not For Profit Specialist*



# SMSF Funds Now With 6 Members

Effective from 1st July 2021, Self-Managed Superannuation Funds (SMSF) can have up to 6 members, an increase on the previous limit of 4 members.

This change will allow SMSF members to combine super balances, enhancing the size of family SMSF's, and potentially making super investments more cost efficient. However, if you are planning to take advantage of the increased member limit, keep a few things in mind.

Your SMSF Trust Deed should be reviewed and updated prior to you admitting additional members to ensure that it is consistent with the new provisions. Some Deeds may cap member numbers to 4.

You also need to ensure that every member is either a trustee of the fund, or a director of the trustee company, so some paperwork will be required at the time a new member is admitted to the SMSF.

If your SMSF has individual Trustees and you are considering admitting more members, this will be a good time to consider changing your Trustee from individuals to a company.

The names of all trustees must appear on investment documentation such as property titles and share records. In light of this, do you really want to have to show all six members' names, only to have to change it when a member leaves the fund or a new one is added? Having a corporate trustee means

you only need to show the company name, which remains unchanged where there is a change to the fund membership.

Another reason for having a corporate trustee is that certain breaches of the Superannuation rules can result in a penalty which is imposed on each trustee. If you have a corporate trustee, the fund will be hit with one penalty. If you have six trustees (because you have six members) you will be hit with the same penalty six times – ouch!

With all its ins and outs, Super can seem confusing, but at RDL we make it easy for you. Just give us a call.

**Joel Hernandez**

*Director – Audit, Tax and Business Services*

**“Eighty percent of success is showing up”**

Woody Allen

## Disclaimer

The contents of this publication are general in nature. No person should act on the information contained without first seeking specific professional advice.

# Insights

SPRING 2021

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## INSIDE...

- Economic Update
- How Debt Can Help You Build Long-term Wealth
- Four Steps To Help You Protect Your Income

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# Economic Update

The remarkable economic recovery continued in the March quarter of 2021, with the Australian economy growing by a stronger than expected 1.8% for the quarter, beating consensus expectations for a rise of 1.5%. Economic activity has now recovered to its pre-pandemic levels, with the economy now 0.8% bigger than it was before the pandemic. Australia represents one of only a few countries around the world that have already recovered the output lost as a result of COVID-19. Consumer spending continued to underpin economic activity in the March quarter. Falling unemployment, low interest rates, and elevated confidence assisted with this economic bounce back.

The RBA met at the outset of the month but left policy settings unchanged. Despite this, over the course of the month, industry consensus tended increasingly in favour of the cash rate hiking before 2024.

Consumer sentiment declined by 5.2% to 107.2 in June, according to the latest Melbourne Institute and Westpac surveys. This decline likely reflects some impact from the two-week lockdown in Melbourne, which may only be further exacerbated by the current Sydney lockdown. This decline, however, is coming off an 11-year high in April. Notably, sentiment remains high and well above its long-run average.

During the month, the Fair Work Commission (FWC) raised the minimum wage by 2.5%, representing more than double the rate of inflation. This will increase the hourly rate of more than 2.2 million workers from \$19.84 to \$20.33. The FWC said the decision followed the economy's stronger-than-expected economic recovery.

Annually, house prices rose 7.5%. The strong demand for housing was supported by record low interest rates, government initiatives like the HomeBuilder Scheme, and elevated consumer confidence. Across all states, Sydney had the highest increase in prices in the quarter with a 6.1% gain, followed by Melbourne and Brisbane, which rose 5.1% and 4.0%, respectively.

Job data released during June was nothing short of amazing, with jobs surging by 115.2k in May, well above the consensus forecast of 30.0k. What is even more remarkable is that job gains over the twelve months to May summed to 987.2k, the best on record.

Unemployment fell 0.4% to 5.1%, the lowest rate since December 2019. Should we head towards full employment, this is likely to generate wage and inflation pressures.



Total household wealth rose 4.3% in the March quarter to reach a new record. Over the year, growth was 15.3% - the strongest growth in 11 years. Wealth per capita also rose to a record high of \$492,055. The continued growth has been driven by higher residential property prices, support from government incentives and a recovery in the labour market.

**“If you buy things you do not need, soon you will have to sell things you need.”**

Warren Buffet

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# How Debt Can Help You Build Long-term Wealth

Contrary to what some people may think, debt can help you build your wealth - especially if the debt is used responsibly with a clear plan and objective.

In this article, we look at three ways that may help you to better utilise debt to increase your wealth over the long-term.

## Efficient' debt versus 'inefficient' debt

It's important to outline the difference between efficient and inefficient debt.

Inefficient debt is generally associated with assets that depreciate in value and have no potential of producing income or offering tax benefits. This could include debt such as a car loan or using a credit card to pay for a holiday.

Efficient debt on the other hand is acquired to purchase assets that have the potential to grow in value and/or generate income that can be used to pay back the debt. Examples of such assets include property, shares and other securities such as managed funds. It's this type of debt that can help you build real wealth over the long term

There are a number of ways to manage debt as a means to build wealth over the long-term.

## 1. Remove inefficient debt

Having inefficient debt is more than likely reducing your wealth due to the associated interest and fees. In some cases, it may be worthwhile focusing on paying down this debt first – starting with your highest interest/fee debt, and progressively paying this off.

## 2. Borrowing to invest

Borrowing to invest (e.g., in property or shares), or gearing, can be a powerful means to build wealth over time as it enables you to purchase more investments than would be otherwise possible.

If your investments increase in value over time, gearing can generate a higher overall return, after the interest and other costs associated with the debt have been factored in. Capital growth and income generated from the assets can also be used to pay back the debt plus interest and fees. The interest charged on the debt may also be tax deductible.

However, there is always a risk that your investments may decrease in value, resulting in owing more on the loan than the value of your investment. If you're unable to pay back the loan due to unexpected circumstances such as, an

interest rate increases or you're out of work for an extended period, the lender may have the right to take ownership of your investments

In a worst-case scenario, depending on the amount you've borrowed to invest, you could lose more than your initial capital.

### 3. Debt Recycling

Debt recycling can be an effective strategy to accumulate wealth over time by converting some of your debt, which is inefficient (doesn't generate capital growth or income, or isn't tax-deductible) into debt that may be efficient (generates capital growth or income, or is tax-deductible).

One way to do this involves using a lump sum – possibly received from a bonus or an inheritance – to pay off your inefficient debt. If you then borrow the same amount and invest it, you're essentially replacing the inefficient debt with a debt that is tax-deductible and could potentially generate wealth.

There are other options for implementing a debt recycling strategy, with varying levels of risk. A financial adviser may be able to help you determine a strategy that is most suitable for your needs.

#### The risks associated with taking on debt

Using debt as part of your investment strategy can introduce substantial risk including:

- Borrowing could increase potential losses
- Your losses could exceed the amount initially invested
- The value of your investments purchased using debt may not increase, or if the value does increase, it may not be sufficient to cover the costs of the loan such as interest and fees
- You may need to sell your investments sooner than intended to cover your interest, fees and charges
- If you are unable to repay your loan, the lender may have the right to sell your assets to cover outstanding repayments, interest or fees
- You may be liable to pay more tax

#### In summary

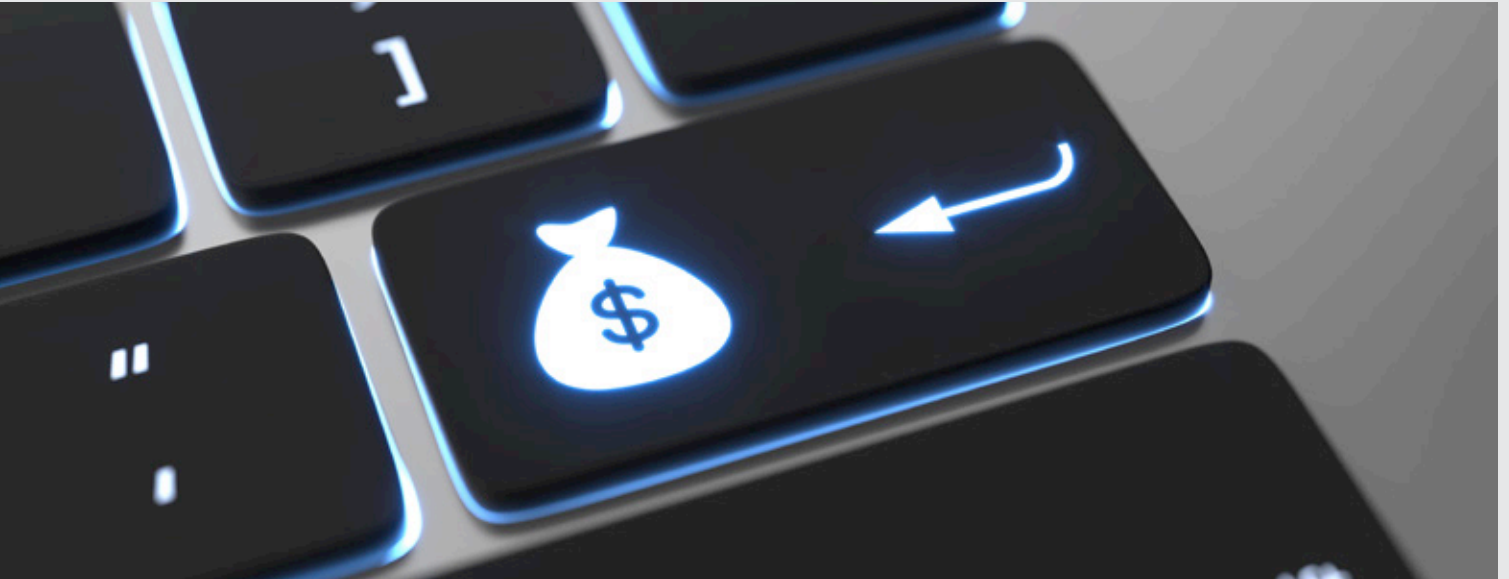
Given the level of risk associated with an investment strategy that incorporates debt, it's important to consider whether this approach is right for you. Speaking to a professional, such as your RDL financial adviser, is highly recommended.

It's also important not to incur more debt than you can comfortably afford to pay back, regardless of whether it is efficient or inefficient.

Bottom line: when it comes to taking on debt, there is always risk, but if managed well, efficient debt can help you to build your wealth over time.

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## Four Steps To Help You Protect Your Income



Many of us don't hesitate to insure physical assets such as our home, contents and vehicles. But what about our greatest asset of all – our ability to earn an income?

While we'd all like to picture a smooth road ahead, sometimes that's just not the case. Protecting your income along the way isn't a luxury: anyone with financial obligations could consider their back-up plan should job

loss, business closure, sickness or injury strike. Because of this, planning ahead for the unexpected may be something to think about for you and your family's financial security. Read on for some tips on protecting your income.

### 1. Save for a rainy day

Saving is a way to insure yourself against setbacks, such as losing your income or unforeseen emergencies. This

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may be a good back up for short-term or relatively minor setbacks and, the best part is, it's flexible. Get into the habit of saving on a monthly basis; you could keep these funds in an easily accessible savings or cash account with the best interest rate you can find, so you can access your money if needs be.

## 2. Consider income protection insurance

Income Protection insurance is designed to replace a percentage of your monthly income if you're unable to work for a period of time due to sickness or injury. This may cover your day-to-day living expenses, giving you the financial peace of mind to focus on your recovery. One thing to consider is the level of income protection cover you may already have through your employer or your super. If your employer or your super fund offers some form of income protection cover, you may still need to apply for additional income protection insurance or another type of insurance cover, so that in the unfortunate event of sickness or injury, you can protect your financial position.

## 3. Invest in yourself

Building up your skills could be a form of insurance. Developing more expertise and updating your skills in your chosen field makes you arguably a more valuable candidate, in case you need to find a new job due to redundancy. Even if you don't lose your job or get sick or injured, broadening your skills can give you more career options down the track, whether or not you choose to remain with your current employer.

## 4. Find ways to boost your earnings

Finding ways to increase your regular earnings may improve your current financial situation and make it easier to save. By doing so, you could be providing financial protection against loss of income or unforeseen emergencies. Sometimes it even lets you follow your passion as a secondary source of income. Some people make extra money by taking up part-time employment such as a part-time tutor or coach, while others create and sell arts or crafts at local markets or online. With all the opportunities out there, there's bound to be something to suit you.

**“Goodness is the  
only investment  
that never fails.”**

Henry David Thoreau

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