Stop, Plan, Financial Year End is Nigh!

Year End Check List

HECS:

This is top of the list because you need to act before 1st June 2023. Each year your HECS debt and other student loans is indexed for inflation on the 1st June. This year the indexing is expected to be around 7%. So if you have any spare cash that is a very good return on your money.

Don't think that the amount your employer deducted from your pay over the last year has reduced your debt. That won't happen until you lodge your tax return.

If this is likely to be your last year of having a HECS debt paying it down right now will effectively give you a 7% discount because you will only have to wait 2 months and you will get your money back in your tax refund. During the year your employer would have deducted HECS from your pay but if you can beg or borrow the amount before 1st June to pay off your debt now then when you lodge your tax return no repayment will be triggered so all that HECS deducted during the year will be refunded to you. If you do not pay all your HECS debt off then the ATO will still take some HECS out of your refund when you lodge your tax return. But at least you have made 7% on the money you did pay and that will compound. The uplift factor is likely to be significant next year too. A lower balance will save you money every year.

To find out whether you are getting close to paying off your HECS debt this year have a look on MYGOV for the amount and here to work out how much you are likely to have to pay if you wait until you lodge your tax return. https://www.ato.gov.au/Rates/HELP,-TSL-and-SFSS-repayment-thresholds-and-rates/#HELPandTSLrepaymentthresholdsandrates201

Super Contributions:

With all these strategies it is imperative that your superannuation fund receives the contribution well before 30th June 2023. Some funds have close off dates a couple of days before hand and some of the processing methods can delay your contribution by up to 2 weeks.

The rules are inconsistent and complex so it is important to get advice on your particular circumstances.

Tax Deductible Contributions for Yourself - The maximum amount of concessional contributions for 2023 is $27,500. This includes your employer's contributions. If you are looking to maximise this you will need to find out how much your employer has already contributed but also how much they intend to do before the 30th June. This is the trap they may not have put your June 2022 contributions into the super fund until July 2022 and the same or a different miss match could happen at the end of this financial year. If you make a contribution for yourself you can claim it as a tax deduction in your tax return effectively increasing your tax refund by the amount of the contribution multiplied by your rate of tax.

If since the 2019 financial year you have at times not used up your full concessional (deductible) contributions cap you can use the unused portion from previous years to increase your cap for this or future years. These carry-forward unused contributions are only available for a period of 5 consecutive financial years. Be mindful if your superannuation balance is over $500,000 at 30 June of the previous financial year you will not eligible to use carry-forward contributions.

For all the details on how to go about this https://www.bantacs.com.au/Jblog/how-to-make-your-own-super-contributions/#more-636

Spouse Contributions – If your spouse's assessable income is under $37,000 then you can contribute up to $3,000 into superannuation for them and qualify for a tax offset of 18% of the amount contributed, the maximum offset is $540. This tax offset increases your refund by up to $540. The offset reduces as your spouse's income goes over $37,000 and no offset is available once your spouse's income reaches $40,000. Careful the $37,000 is assessable income so no deductions are allowed which is difficult if your spouse has a rental property or sole trader business. Further, the assessable income is increased by any reportable employer superannuation contributions or fringe benefits. Additional conditions are that your spouse must be under 75 years of age (meet the work test if older than 66), not have made more than $110,000 in non deductible superannuation contributions and their balance at 1st July 2022 must have been less than $1.7mil.

If the high income earner has not maxed out their $27,500 consider whether it is better to make a tax deductible superannuation contribution for the high income earner or claim a tax offset for a spouse contribution for the low income earner. The Spouse contribution tax offset is only 18% though the contribution does not get taxed going into the fund. Basically if the high income earner's tax rate is above 33% (15% plus 18%) then a normal deductible contribution will give a better outcome.

This is best explained in numbers. Let's say you have $4,918 in before tax dollars and your taxable income is between $120,000 and $180,000 so your tax bracket including Medicare is 39%. Note for income between $45,000 and $120,000 the tax rate is 34.5% so not much difference and still above the 33%.

Options	Effective Tax Bill
1) Take the $4,918 as normal take home pay it will be taxed at 39% leaving you $3,000	$1,918
2) As above but make a spouse contribution with the $3,000 so receive a $540 tax offset. No tax going into the fund	$1,378
3) Put the whole $4,918 into superannuation for yourself taxed at 15% In the fund's hands because you are either claiming a tax deduction or Have salary sacrificed the contribution out of before tax dollars	738

All the above again but your income is over the $180,000 mark so your tax bracket including Medicare is 47%. In this case it would take $5,660 to give you $3,000 after tax.

Options	Effective Tax Bill
1) Take the $5,660 as normal take home pay it will be taxed at 47% leaving you $3,000	$2,660

2) As above but make a spouse contribution with the $3,000 so receive a $540 tax offset. No tax going into the fund $2,120
3) Put the whole $5,660 into superannuation for yourself taxed at 15% In the funds hands because you are either claiming a tax deduction or Have salary sacrificed the contribution out of before tax dollars $849
4) Put the whole $5,660 into superannuation for yourself but taxed at 30% because you adjusted taxable income is over $250,000 $1,698

Clearly it will always be better to make a tax deductible contribution for the high income earner than a spouse contribution unless the high income earner is earning less than $45,000 or unless the high income earner has already used up their $27,500 concessional cap.

Government Co Contributions – If your income is below $42,016 and you put $1,000 into super without claiming a tax deduction for it the Government will pay $500 into your superannuation account. Neither of these contributions are taxed going into the fund. If you put in less than $1,000 the Government will contribute 50 cents for every dollar you put in. If your income is above $42,016 the co contribution shades out until your income reaches $57,106 where you will not be entitled to any co contribution at all.

Income for the purposes of this test is your income before tax deductions plus reportable fringe benefits and reportable employer super contributions that have received concessional tax treatment going into the fund. If you are in business you are entitled to reduce this amount by your business tax deductions.

Other conditions are that you need to be less than 71 years old at 30th June 2023 (work test requirement if over 66 years), must not have made more than $110,000 in non deductible superannuation contributions and your balance at 1st July 2022 must be less than $1.7mil.

High Income Earners Caught in the Div 293 Trap - If your adjusted taxable income is above $250,000 the ATO will send you a bill for another 15% tax on your concessional superannuation contributions, that is super contributions that your employer has made and ones you have made for yourself that were taxed at 15% rather than your marginal tax rate. The term $250,000 in adjusted taxable income means that (among other things such as rental property losses) any extra superannuation contributions that you claim a tax deduction for will be added back onto your income so that won't help you bring your adjusted taxable income down. The definition of superannuation contributions that will be added back are those that are treated concessionally, that is the key. Now odds are if you are on more than $250,000 a year you are already using up your $27,500 maximum concessional contributions cap through the employer superannuation guarantee. So, if you were to make a further superannuation contribution for yourself and claim a tax deduction for it the ATO would pick this up and make you pay a top up tax to bring the tax paid on the contribution up to the maximum tax rate. You can pay this top up tax direct or it can be paid by your superannuation fund. As these contributions over the $27,500 cap are no longer concessionally taxed they no longer added back.

For example if say you were earning $280,000 in taxable income you could put $30,000 into super and claim a tax deduction for it in your tax return bringing your taxable income down to $250,000 so no Div 293 on the $27,500 your employer contributed. The $30,000 is still tax deductible in your tax return but it is not added back because it does not receive concessional treatment in the super fund because the top up tax is triggered. The top up tax just means you end up paying the tax that you would have paid had you taken the amount as wages but you have saved $4,125 ($27,500 x 15%) in Div 293 tax. The only downside is you have more money locked away in super until you retire. Careful – Make sure that you have not used up all of your non concessional cap. Seek advice if you have been making contributions for superannuation that you have not been claiming a tax deduction for as you don't want this strategy to push you above the non concessional cap.

Bringing Forward Tax Deductions and Payments in Advance:

First consider whether you would be better saving the tax deduction for the following year. The tax rates in 2022-2023 and 2023-2024 are going to be the same so a bird in the hand approach is warranted just make sure the deduction you are accelerating doesn't push you into a lower tax bracket then you expect to be in next year. For example if you are earning $125,000 and you pay for some training course costing $10,000 that will bring your income below $120,000 dropping you from the 39% tax bracket into the 34.5% bracket. A better overall tax outcome would be to claim $5,000 in each year so that the full amount is deducted at 39%.

For Property Investors – It is not just about rushing out and spending some money on your rental property. Improvements will not be deductible at all and plant and equipment purchased now will only qualify for one months depreciation unless it is under $300 per owner of the property. So before you do anything have a read of this https://www.bantacs.com.au/Jblog/year-end-tax-strategies-for-property-investors/#more-991

Businesses Buying Plant and Equipment

Basically, if it is installed ready for use before 30th June 2023 you qualify for immediate write off regardless of the costs. Note the ATO are now letting you choose which piece of equipment you claim an immediate write off for and which you don't which makes it a lot easier to avoid wasting the tax deduction because it drags you down into such a low tax bracket. From 1st July 2023 the immediate write off amount is only for plant and equipment costing less than $20,000.

If you are thinking of buying energy efficient plant and equipment it is worth waiting until after 1st July 2023 so that you qualify to claim depreciation on 120% of the purchase price. The cap for this sort of expenditure is $100,000 in total but the $100,000 can be made up of multiple items. Full details are not available yet but examples given in the budget were assets that upgrade to more efficient electrical goods (such as energy-efficient fridges), assets that support electrification (such as heat pumps and electric heating or cooling systems), and demand management assets (such as batteries or thermal energy storage). Certain exclusions will apply such as electric vehicles, renewable electricity generation assets, capital works, and assets that are not connected to the electricity grid and use fossil fuels.

The unlimited plant and equipment immediate write off expires on 30th June 2023. The $20,000 immediate write off and the energy efficient 120% depreciation expire on 30th June 2024.

Housekeeping:

Vehicles – Make sure you take your speedo reading at the 30th June it could come in handy and is absolutely necessary if you are using a log book.

If you start a log book now even though the 3 months will not be finished by 30th June 2023 you will still be able to use it for your 2023 tax return because it was started in that year.

If you don't have a log book you can use the 78 cents a kilometre method providing you keep a record for at least a month of the typical kilometres you travelled all year. This method is limited to 5,000 kms per vehicle per owner of the vehicle. Note if the vehicle is a one tonner or other non car type of vehicle you are not entitled to use the kilometre method.

Diaries – To claim home office expenses, laptops, phones, internet, basically any expenses that has a mixture of private and work use you will need to keep a diary for at least one month before 30th June, 2023. In the case of home office the diary has to be for the full year starting from 1st March 2023. The following blog has all the details on how to keep the records you need.
https://www.bantacs.com.au/Jblog/urgent-warning-start-a-diary-of-your-home-office-use-now/#more-1259
There is also a diary spreadsheet available in our shopping section.
https://www.bantacs.com.au/shop-2/home-office-2023-and-ongoing/

Late Lodgers:

Make sure you get your 2022 tax return in before the 30th June 2023 if you are receiving Centrelink family payments or you will have to refund what you have received.

If you made a superannuation contribution before 30th June 2022 that you intend claiming a tax deduction for make sure your superannuation fund is aware of your intention before 30th June 2023 or you will lose the opportunity to elect to claim it as a tax deduction.

Going Forward:

Allow us to provide you with truly Professional Accounting services. We are not just form fillers. When you have your tax return prepared by a BAN TACS Accountant you will be given tax tips to improve your refund and warnings about traps, directed at your particular circumstances. Develop a relationship with a BAN TACS Accountant for life because you don't know what you don't know. Talk to us about what you are thinking of doing before you do it. Ask about our record keeping spreadsheets to track the tax consequences of what you are doing. The BAN TACS National Accountants Group has expertise in many different areas of tax and finance. This allows us to provide large firm knowledge and resources while maintaining a small local firm personality.