The Australian Finance Podcast Episode Transcript

Episode: 10 must-know ATO tax rules for 2021 & beyond
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Speakers: Owen Raszkiewicz & Jacob Fenech
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Episode transcript:

Owen:
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Owen:
Jacob, thanks for taking some time to join me on the podcast, mate. This is going to be really informative for our listeners.

Jacob:
Yeah, thanks for having me on. I'm pumped.

Owen:
Is this your first podcast? Other than stuff that you've done in webinars, is this your first podcast?

Jacob:
Yeah, first official recorded podcast, I would say. I've really enjoyed the webinars series that we've been doing with Airtax, but yeah, definitely first official podcast.

Owen:
Yeah. Cool. I like it. So a bit of a background, Jacob and I have worked together on some financial wellness webinars that we've done for some customers, and it's been heaps of fun talking about the finance plus tax side of things. I'm always remarking over you, mate, everyone in the office, I'm saying how good Jacob is in explaining things and just how much energy you bring to the conversation around tax. So I'm super stoked you could be here and share some of your wisdom with our listeners. And also, you'll be back for another episode talking about some tips around tax time. This episode is about, what are some of the changes that people should be aware of, not just from this year and not just in the year coming, and by that, I mean tax year, but all the things that have happened in recent times that people should be aware of.

Owen:
But to kick things off, what I might do is just provide a very basic explainer of how the tax system works. Jacob, if I get this wrong, please correct me. So, in very, very simple terms, do you earn income? Typically, most people earn a salary or they earn, say, dividends from their shares or ETFs, they might earn rental income, and that all goes into this pot that we call assessable income. From that pot, we then take out things called deductions, which are common things that you would be able to claim under certain rules and legislation, and we'll talk more about that in just a moment. But then we take the deductions from that initial pot of money and then we have what's called the taxable income, and so the income that you are effectively get taxed on. So far so good?

Jacob:
So far so good. I like it.

Owen:
Cool. And then from that, if you're an individual, it's different too if you're a company or if you have, say, a trust or you have some sort of other legal structure or tax structure, but for most individuals you pay more tax, i.e., you pay a higher percentage, the more taxable income you have. So the more you make, the more you pay up to a certain limit. And that's generally expressed as percentages known as your marginal tax bracket, and you can check that online. And then what happens is, each year at June 30th, that's the end of the tax year, you lodge your tax return, and we'll explain how to do that in just a moment. And then depending on whether you can have deductions or not, you might get a tax return from the ATO. And depending on the timing, I think that takes about up to two weeks. Is that what the ATO says, Jacob?

Jacob:
Yeah, that's what we're saying. Yeah, right about two to three weeks for your notice of assessment, and then you could even get your actual cash refund in your bank account before

you get the official notice of assessment, it's not uncommon, for a couple of days in between, but yeah, roughly two or three weeks.

Owen:
And this is a really interesting one because a lot of people worry, they think they'll lodge their tax return now... I think we're in this era where people lodge a tax return and expect the money to be instantly transferred into their account. It's not always the way it works. So all of this stuff that we talked about just now, Jacob, Kate and I on the show talk so much about getting your income higher, investing, getting a pay rise, investing in yourself. I know you're a big fan of that too, but then there's this missing component that Kate and I don't really talk about, which is deductions.

Owen:
The only thing that's certain in life is death and taxes, and we want to bring down the amount of tax that we pay while also maximising what's left in our pocket. And one of the key ingredients to that in our formula is a tax deduction. So I'm just going to hand it over here. This is a softball note, first one for the day, what is a tax deduction?

Jacob:
It was a perfect explanation that you gave at the start, and I want to underscore a couple of those things that you did mention, because I think people are easily confused around, say, the difference between a deduction and an offset. So a deduction, as you said, helps get to the inline figure of what makes up your taxable income. So you have your revenue, you have your salary and wages, you then subtract from that your deductions, could be expenses, work related, we'll come back to what they are, to get to a taxable income. What I see, where people will have a lot of questions around or have a misunderstanding on, I spent 100 bucks maybe, to give a random example, they're a tradie, they bought a pair of sunnies, they spend 100 bucks. At tax time, they expect to see that 100 bucks back in their pocket because they claimed it as a deduction.

Jacob:
And I think it's a really important thing to underscore, based on your tax rate, so say you're paying 37% tax rate and you spent that $100, you're only getting 37 of those dollars back, you're not getting the 100 bucks back in total. So I think that's a really important point to think about deductions in general, fairly different to, say, an offset where you're getting the full amount back, and we can talk about what offsets are as well. So I think when you're thinking through deductions, there's a couple of golden rules, I would say, the first being you have to have spent the money yourself. Sounds fun.

Owen:
There's a good one.

Jacob:

You get a heap of variance. You'd be surprised around individuals trying to claim deductions that mum and dad have paid for, but were related to them. Yeah, there's a heap of variance there. So you have to spend it yourself. It has to be directly in relation to your, let's call it your day-to day-job, so the way you earn income. Another one that can become quite grey pretty quickly, we call it a nexus. What I mean by a nexus is, it's a pretty tax term. It's basically, what was the primary purpose of whatever you were buying? An example we often use is like a Netflix subscription. That if you're a trader, you might jump on Netflix and watch Grand Designs, which is a really popular show that I love.

Jacob:
The nexus isn't that strong between being a tradie and watching Grand Designs. You couldn't therefore then say, go on and claim a Netflix subscription as a deduction at tax time. To use the sunnies example, buying a pair of sunnies, being onsite, sun protection, all that sort of stuff. You could more easily justify a nexus or a purpose for those working outdoors. So I think that's an important thing when you're thinking about deductions. The final golden rule is, the more you claim, you definitely need proof. So I'd be keeping receipts. In today's world the paper receipt's super outdated. You can have a bank account that shows money that you've paid and you don't need to-

Owen:
Oh, so you can do that? You don't have to necessarily just keep that piece of paper, you can just show proof of purchase?

Jacob:
Yeah. Proof of purchase. So that could be, say an mail, anything. The more information, the better, in case it was audited, but something that shows the money that you've paid and what it was.

Owen:
How about if I'm a tradie, we'll just continue with that example, and I climbed Netflix and I get audited? Is that like a really bad thing for me to get audited? I feel like that's like the ATO going, "Ha, ha, ha, that's not right."

Jacob:
Yeah. I think it's a really interesting point. It's something that, people are really scared of getting audited, and probably rightly so. It's an admin issue that no one wants to work through. I think the full-blown audits that we used to see probably five or six years ago are less common now, to give people some peace of mind. To explain the process, I suppose, for your listeners, to break it down a little bit around what we'd usually see in practise. I've be working at PwC for about 10 years, and it was within the first year we had a tax director that explained, I don't know if you can remember the Michelin Man that had the tyres around him that used to stand at the front of the shop.

Jacob:

So we used to think about deductions and audit from the perspective of Michelin Man, and I'll explain what I mean. So you have, from his head and his legs, you have the smaller tyres, and he grows as you go down towards his waist and you have the largest tyre around his hips, kind of thing. If you were to use that as a framework for deductions, you're really conservative people at the top and the bottom that don't really stand out. If we're putting, say a pipe over the top of him and where, I don't like to use a fish in a net because I think that example is really overdone, so we're using a Michelin Man. The tax office looks at what your salary is and what your profession is.

Jacob:
And if you pie, as soon as you get to the larger deductions, that's what they're trying to catch. "Hang on a second, this looks a bit weird. This tyre stands out in relation to all the other tyres, it's the biggest." It doesn't necessarily mean that they target just high income earners by any means, it means that they look at things that stand out to them based on say their data, they've got a heap of data they get from taxpayers in general through filings year after year, and they look at audits based on things that look basically unusual, where they think there's either an issue that they want to investigate further, or they think that something is outright claimed incorrectly.

Jacob:
So I think thinking through, I know this is going off on a tangent a little bit. I want to just to make sure to give people a peace of mind around deductions in general, that the ATO expects you to claim them, and a correct return is basically a return with all the relevant deductions included. That's a really important point, that you shouldn't feel almost guilt when you're claiming deductions. Some people do, believe it or not. Some people love it, they get as many as they can in, and probably toy with the line a little bit too. They probably need to be a little bit more careful, which is the other spectrum. But yeah, that's why I wanted to touch around deductions.

Jacob:
In terms of audit specifically, basically, the ATO would ask for some proof, whether that be receipts, depending on what the claim was, and you'd basically be able to then either prove or not prove the deductions that you had included importantly. So that's why we say, definitely, the more information that you've got based on what you claimed. Usually we say, keep it for about five years, is ATO guidance as well, just in case they do ask the question. But yeah, I think in terms of the process for audits in general, that's what they'd usually ask for.

Jacob:
And you genuinely get, say, an agent assigned to your case as well, which can be helpful. Once again, sounds scary off the top, but can actually be helpful because they're quite practical in what they ask for. They're just basically out there to clarify your circumstance and make sure everything's within the rules and then done, basically. Hopefully that answers your question.

Owen:

I think it really does, mate. And I think it's an important discussion that we start with that and then lead into what we're about to talk about because so many people, and I'm like this, I'm super scared. I'm like, "If they find out that I claimed a donation and I didn't keep my receipt, oh my God, do they find other stuff? And then what does that do for me?" And then I have to pain it. And you just start thinking about all these things in your head. And I think unless you're just waving around some big red flags, I feel like, yeah, like you said, they expect you to make your deductions, they expect you to try and claim things, so that's normal.

Owen:
Before we move on from this point, I heard once, and this could be like one of those urban myths that's just sent out by the regulators. Like they just whispered it in the ears and it spreads throughout the country. I heard they had like a supercomputer, like a Watson supercomputer from IBM that automatically checked everyone's deductions. Or am I making things up?

Jacob:
No, there's a lot of stuff out there, I completely agree. One of them is that the ATO actually has more data and more access on hand than, say the police in general, which sounds crazy as a concept, but the systems there, whether it's a supercomputer or not, to run through that data. And they're really good at saying, as we chatted to before, what your occupation is, how much salary you're earning, what the average deduction is for someone with those two things running, and do you stand out or do you not stand out? So I think that's an important way to think through it. They've got heaps of different data. As I said, I don't want to get into scare tactics by any means, but it's just a cool point or a fun point to think about.

Jacob:
They've also come out to say they're able to see, if you say you're claiming it through myGov, which a lot of people do. A lot of people use a tax agent, then fine too, but don't be one of the people... Who knows if this is true or not, they say that they can potentially see clicks as you're working through your deductions as well. So I think a lot of people are probably guilty of this and shouldn't feel too bad about it, but when you're working through your return, you shouldn't be updating, say, your case 100 times just to see what gets you your best deduction, which people do. You should just be noting basically what the relevant deduction is, inputting the figure and moving on.

Jacob:
So I think that's just a random point. We don't know if that's true or not, but it's something that has come up in conversation before. It comes back to basically the fact that, claim everything you're eligible for and nothing above and you'll be sweet.

Owen:
Yeah. Okay, cool. And another one of those potential urban myths about the ATO, what actually happens there, no one knows. But okay mate, let's move on. This discussion is going to be about the big changes that people should just be aware of. There's been a lot of change in year 2020, 2021. We call it COVID-19, but it really hit in 2020, and it's still affecting part of the country

and indeed people's incomes today, and it probably still will for quite some time. As a result of that, we've had a lot of people moving to work from home. I think the internet uses WFH for short. We've also seen many more people taking up gig work or being part of the sharing economy, making money from Airbnb or renting out their apartment that they no longer have a tenant in, people turning on Uber or getting on Airtasker doing odd jobs here and there to make some extra cash.

Owen:
And then we've got small businesses that have had to make pivots and who are also eligible for a lot of things when it comes to government benefits, subsidies around employees. And then we've got changes for contractors too, so people that might be sole traders working freelance or something like that. So there's a lot to take into account. And before we start talking about this, I just do want to make a mention. And Jacob and I just had a chat about this off air, is, when we talk about examples or we talk about things, just keep in mind that a lot of these things are specific to people and the structure that you're in, whether you're an individual, whether you're an Australian resident for tax purposes, whether you're not, all these different things.

Owen:
So this is where it's important to speak with a tax professional who can understand your specific situation, especially, if you're confused about what you're eligible for and what deductions you can claim. So I'll just keep that disclaimer in your mind. The first thing that I want to talk about, and this is not something that's changed necessarily. Now, this week, or even this month, the key change super recently was an increase in the super contributions that you can put in, as we call it, a concessional contribution. So this is like when you make a salary sacrifice into super, people might be aware of that, or when you put money into super and you claim a tax deduction.

Owen:
So the threshold for this has gone up from $25,000 to $27,500. So I think you can talk to the tax element of this, Jacob, but is this just as simple as, I put money in and I claim a tax deduction for the amount of money I put in? Is there anything else that people should be aware of from the ATO side of things?

Jacob:
I think there's a heap to chat to. So the first being the increase in the threshold for concessional contributions from, as you mentioned, 25K to 27 and a half. It's a good thing. It means, you want as many of your contributions to be concessional than not only because of the tax advantages in doing so, which we'll chat to, I think the increase in the figure, the 25 K through to the 27 and a half, make sense given that super is increasing overall, which is awesome. So 9.5% into 10% is always positive to put more towards your eventual retirement no matter how far away that probably seems for a lot of your listeners as well.

Jacob:

Basically, breaking it down though, I think firstly, on the point around the increase in super, it's an interesting one that we've had questions on, if I'm on a total remuneration package, what I mean, by that is this is a base salary, I get this much into my super as a percentage, and my total package is X. So it could be that you're paid 100K in total. And previously you had a bit over 90K as a base salary and you had some super at 9.5%, that could tweak to say you've got 90K as a base salary and 10K going in as a super contribution.

Owen:
So meaning that the total doesn't change because that's in your contract with the employer. So the total doesn't change, it's just that there's more super out your total package. Is that right?

Jacob:
Exactly. And I think that's an important point when you're thinking through how much... What a lot of employees in practise we're seeing for the changes in general probably bumped the base above, but it's not guaranteed. So that was the first point that I wanted to make, that it's worth probably having a chat or at least knowing how to look at your contracts, chatting to your employer around what's happening with your base salary and super, at least being in the know around that because you wouldn't want your base salary to drop just because the super went up, but it could be there if you are on that total package piece. So that's the first one.

Owen:
I think just on that, I think that the counterpoint to that is, we want to be paid 10% on top of our wage, our base salary. But I think the counterpoint that a lot of small businesses have is that, especially during COVID, they're struggling, and to pay even a little bit more in super can hurt. So just being aware of that, if listeners, you think, "Okay, I want to be paid 10%," just be aware that your employer might say that, "Hey, we're in a pretty tough position. This is what we think." For most people, it's kind of splitting hairs that extra 0.5, but it's just something to keep in mind as a counterpoint what the employer might come back to you with.

Jacob:
Completely. I think that's such a relevant point that you can then view it as the angle from an employee perspective. There's also the business perspective as well, and so taking into account both. So in terms of concessional versus non-concessional, I think it's an important point. So concessional, as we said, there's caps to how much you can actually put in. And so your concessional contributions, there's a lot of terms in here that I'm going to try and use as few as possible because they are quite specific to superannuation and to tax in general. But what a concessional contribution is is something either that you've claimed or you're planning on in your return claiming a deduction for, you've let your super fund know that, or that your employer through our previous example actually contributes directly on behalf of yourself. So it's money going into the fund.

Jacob:
What it does is basically, those amounts aren't included in your taxable income for the year. You can't claim an additional tax deduction just for your employee contributions that your employer is

making on behalf of yourself, which is where we get questions a lot. You can, if you make additional contributions on top of that, importantly, so don't miss out on that. But just because your employer is making those contributions into a fund, you can't kind that through your tax returns. So when you make contributions into a fund, what a lot of people probably don't realise is that there's tax actually paid within the fund on your behalf. So it's taxed at 15% when that money goes in further growth from there is taxed at 15%, and that's basically the fund paying that tax directly on your behalf.

Jacob:
So you don't necessarily feel that as an out of pocket type piece, it's not in your return each year when you come to file that, but it's going on within the fund, importantly. We can talk about chairs and other things more generally, but I think the 15% tax rate is really is a great way to rebuilding your retirement balance overall. And it is a really big concessional rate compared to, say the capital gains tax rate that's taxed at your marginal rate in general.

Owen:
So just to flesh that out for people, imagine you're in a 37% tax rate. If you invest in, let's say an ETF or some shares in your brokerage account, you're paying tax on the earnings at that 37% because that's your marginal tax rate. That's you paying tax in your own name.But if it's inside your super fund where you might hold the exact same investments, to be frank, the super fund is lodging a tax return on your behalf and that's paying tax at a reduced rate of 15%. So that's why people want to put as much money as they can, or a lot of people do, want to put as much money as they can inside super. And the government rewards that behaviour effectively, by saying, "If you put more money in to fund your retirement so we don't have to do that, you can claim a tax deduction for X amount."

Owen:
And what we're saying is X amount is slightly going up this year, so it's increasing a little bit. So there's a genuine incentive there. Obviously, from a financial planning perspective, the downside is that your money is in there until retirement, so just keep that in mind too. That's the big one.

Jacob:
Definitely. Definitely. You can't, unless we had a, and touch wood we don't, another COVID scenario where people are able to access large chunks of that balance as we saw in the previous year, the money is stuck. So think through what you do before you pop it into a fund. I think the only other point that I wanted to mention on the, I suppose, the tax effective concessional contributions, and it's quite specific to high income earners as well. So there's something called a Division 293 tax, once again, a specific term. What does it mean? It basically is an additional tax on concessional contributions if you earn over 250K.

Jacob:
All I mean by that is, we talked about the 15% going into the fund and tax being paid on your behalf. If you earn over 250K and you have any concessional contributions up to the cap of, let's call it 27 and a half, you could be hit with an additional tax bill at the end of each tax year, and

you may have seen it before, where you are basically topping up those concessional contributions from 15% tax to 30. So it's quite an uplift. It usually means there's either tax to pay at the end of the year through a cash amount or you can release it through your super fund as well, which is a neat way to limit that exposure on how much it is out of your net pocket as well.

Owen:
So what you mean by that, Jacob, when you say release it, that's if you pay over... If let's say you are earning over $250,000 and your employer is putting more than the 27,500 away as concessional contributions on your behalf each year. So you don't even know that's going on, that's just going in there. And then you realise, "Hey, it's over 27 and a half and I'm paying extra because I'm this type of earner. Can I get some of that extra out of super?? Is that what you mean by release?

Jacob:
Yeah. And there's two pieces importantly. The one you have described is excess contributions. So this is where it gets complicated quite quickly, but if you exceed the concessional cap, which is your contributions are above that 27 and a half, you fall into excess contributions land, very differently to Division 293, which looks at zero to 27 and a half, so under the cap, basically, or up to, we should say. So if you're a high income earner, your first dollar into super right up to your last dollar under the concessional cap, so just up to 27 and a half, there's a potential for that to be increased by 15% if you earn over 250K.

Owen:
Yeah, right. That makes sense.

Jacob:
So that's the first point. Definitely, to what you've described there too, Owen, is basically it works out and it makes sense that as soon as you start earning over, let's call it 275K and you've got 10% of super going into a fund, employees can actually cap it slightly before that, we won't go into that piece, but let's just say it's 10% of your base salary going in, you may fall into excess contributions land. And all I mean by that is, if you exceed that cap of 27 and a half, then, basically additional contributions, so the first dollar onwards above 27 and a half, is almost taxable at your marginal rate. Basically, it's the easiest way to think about it.

Jacob:
And what we're getting to both with the Division 293 tax, as well as the excess contributions tax, so cash above the 27 and a half, you have the potential to release dollars from your super fund to pay any additional tax, importantly. So it doesn't necessarily need to be an out of pocket expense like your usual tax bills, say, would be at the end of each year. So there's a heap of information out there for you. I would say start with whether it's Airtax or the ATO website, because super contributions and how they're taxed, as we said, can be a nightmare if you've got a number of different taxes thrown at you. So understand what they are, speak to a tax agent around, the best way of addressing them, I suppose, is easy as trying to think it through.

Jacob:
And then know that there are means out there that you don't necessarily need to pay for it out of your own pocket, too importantly, it can come from the super fund, which is still obviously your cash, but yeah, it can come from the super fund.

Owen:
That was point number one. So we'll try and be a little bit quicker with the next few. So you talked about offsets at the beginning of the show, at the top of the show. Two of the things that people might not be aware that takes place in their tax return are the impacts of something called LITO, L-I-T-O, and, I'm not going to even try pronounce this, but L-M-I-T-O. So is that the Low Middle Income Tax Offset? And then the other one is the Low Income Tax Offset, is that correct?

Jacob:
Exactly, exactly. It is.

Owen:
And so these have the impact of effectively increasing what people take home post tax time, especially low and middle income earners, as the name suggests, is that correct?

Jacob:
It is. And importantly, if we go back to that deduction example, these offsets add dollars back to you. You've got up to the ability to potentially, when you file your tax return, getting a bit over a grand back. That's a grand in your pocket, it's not a grand that's being taken from your taxable income, it's a grand that you can get back at tax time. So it's a really good one. It gets phased out as soon as you own above 90K, but for a lot of people, it's massive. And it's not factored into your regular withholding, so you have to file a tax return to get it back.

Owen:
And that's why some people would always get a little bit in the tax return, because they get that back because they paid a little bit more than what they later find out they're entitled to get back. We don't have to do anything special to get this, it's just lodge a tax return and it automatically applies. Is that correct? We don't have to apply for anything or whatever?

Jacob:
Yeah, absolutely. No. So you have to, whether you use a tax agent or even on myGov as well, the ATO works out when they put together your notice of assessment, how much you're due, how much you're earning, how much of the tax offset you're due back, and it's just factored into either reducing your payable amount or increasing your refund.

Owen:
That's a neat little one there. So that's do nothing but lodge your tax return and it's automatically calculated for you. It's easy win. There's something, and we've got a few here for businesses, and we know that not everyone has a business that listens to this, but we hope you have side

hustles, or you might even think about having a business in the future, so we'll just try and just make a note of these because they are important changes on the back of COVID. And one thing that I looked at, Jacob, was this thing called the JobMaker plan. Can you just explain, I guess in general terms, what it is? You don't have to go into specifics necessarily, but just bringing it to the consciousness of people that might have a small business.

Jacob:
Definitely. And I think as much as possible, being informed around what's available, because as you said, it's been a super tough probably 18 months period. And so being knowledgeable in the sense that you know what's out there, you know what you can claim, you know what incentives there are, JobMaker is one of those. I suppose the extension of that is sometimes claiming JobMaker, and I'll chat too in a sec what it actually means. It could mean that you're not eligible to receive other payments. So just work through what's most beneficial for you, probably with a tax agent as a business, because you don't want to hamstring yourself by claiming the JobMaker through other payments that you do.

Jacob:
So what JobMaker is, relatively high level, is the potential, say, to get some cash back, so roughly 100, $200 a week for each eligible employee, and we're at the younger working population. So if you're employing, say, someone between 16 and 35, you might be eligible for a credit, which is awesome, to really incentivize companies to employ young professionals. And what you can do is... There's a good simple video on the ATO website as well, so I would have a look at that as a first take. They may necessarily extend, but definitely for 2021, you can put in the claim to say, "Here are my eligible employees. How much am I due back?" And the ATO can help work through potential to get at least a couple of hundred dollars a week back for each employee. So it's a really good one.

Jacob:
As I said, have a look at it, see if it's relevant to you to just make sure you don't trip up on any of the other potential payments that you might be receiving too by claiming the-

Owen:
Is there any potential payment that you might be able to call out, as in like an example of what you might have to forego?

Jacob:
Yeah. Basically, if you're claiming site JobKeeper as one, you may not necessarily be able to claim both, that's an important one. So the JobMaker and the JobSeeker are two that don't necessarily always work hand in hand, you might be able to get one and not the other.

Owen:
Okay. And so if I'm a small business, which I have one, I do this during my tax return or I do it now before June 30, or can I do this anytime?

Jacob:
Yeah. You don't necessarily have to do it through your tax return, you can basically submit a claim and there's almost like a portal the ATO provides where you can put forward a claim. You submit that, they assess it, and they note... It's basically paid in arrears. So they say, "Okay, for this period, you were eligible, this was the amount of eligible employees you had. This is the amount based on their age that we've calculated." You can get higher amount for younger employees, is the easiest way to think about it. So I think it's a really cool initiative. It's something, as we said, that small business owners should be on top of, because you don't want to be losing out on cash that you're due.

Owen:
A couple of other business ones we've got here, which are probably a bit easier to explain because people will be familiar with them, is the instant asset write off. Am I correct in saying that that was extended? Is that correct?

Jacob:
Yeah. So it was uplifted. So it was uplifted in terms of the amount that you could claim. It used to be roughly 30K, now it's massively increased to 150. So another really cool initiative overall by the ATO help small businesses. So I think just really quickly, some of the questions we get, so you don't have to tally up your assets. So say you're claiming a car and a couple of other things that you might include in your business. They don't altogether have to be under the 150, it's per asset, really importantly. So that's one of the questions that we get. There's also limits on specific assets though as well, I think that's another important point.

Jacob:
What I mean by that, to give a practical example, say you use your car as... You might be an Uber driver, for instance. If you're buying a luxury car and I'm thinking of the term, one Uber that you might be driving around in, but not Uber X, it's the one.

Owen:
The Black, is it?

Jacob:
Yeah, I don't know. Is it? I wish I did. Say you're driving and you're affording a lux car and it doesn't need to be necessarily an Uber driver example, but you can't necessarily claim the full amount of that vehicle, some of them have thresholds, even if it's under the 150. The easiest way is to chat to a tax agent around what assets you've purchased and what might be relevant, but I think that that's just a couple of important points.

Owen:
And probably speak to them before you purchase it is the key point, I'd say too. And I think that probably applies to tradies. I'm thinking of hairdressers that might be fitting out the salon and they want those seats that you see in places or any type of asset that you might be thinking of buying, speak to your tax agent, because this could have material impact because it brings, my

understanding, Jacob, is it brings forward the full deduction rather than you having to take a part of that cost every year and break it down over the years. The next one is the small business turnover threshold. I'm not 100% sure what this is.

Jacob:
Yeah. So small businesses, what's classified as a small business. Usually, it's based on revenue, and I think all I would say about this one is it's increased, you can earn more as a small business and still be classified as a small business. Whether it be, say it used to be 10 mil, now it's capped at 50. So there's a lot of businesses that obviously fit under that cap, which is awesome. What the turnover does when you fit into one of the categories, so let's call it under the 50 mil in terms of aggregate total turnover. It means that you then either are, or are not relevant to, or eligible to some of the incentives or the small asset write off that we talked about, all that sort of stuff. So it caps out at the 50 mil.

Jacob:
So I think it's an important one. You've obviously got a fully fledged business if it's over 50 mil. So I think for listeners in general, there's a whole heap of people and businesses that are going to fit under that, which is great. It's not something that the government's rolled out really narrowly. So I think, yeah, turnover in general, increasing is always positive, it means more people can get benefit.

Owen:
We say $50 million, and that sounds like an enormous number, and it is. But even 10 mil sounds like an enormous number, but we're talking about turnover here, which is different to what companies make in profits. So that's a totally different thing. So keep that in mind before you go thinking this is just a benefit for millionaires, it's not necessarily the case. You can have retail companies, restaurants that turnover so much money, but they don't actually make that much profit and were affected by COVID, so a good initiative all around. The final one for businesses that we've got here is basically a change to the base rate for small businesses, I believe. Can you just explain what this means? Because we've talked a lot about individuals who pay tax on a sliding scale. So what's this one mean?

Jacob:
Yeah. This one is pretty complex, and so I think first and foremost, chat to your tax agent about it because there's different thresholds for different years. There's also then different percentages that you can claim or that you're taxable on based on your turnover and those years. So, as I said, pretty complex. What it looks at, if we look at the base rate example, it says that for any passive income within your business, so say if you've got rental, you might have dividends, there's a number of different passive income pieces that you might receive income from, there can be a lower tax rate than say the 30% corporate rate on those income paces.

Jacob:
And so a lower base rate generally means for those passive income pieces, so if it's rental income, you might, say, be subject to a bit under 30% instead of the full 30, which is another

cool piece. I think it is a really, out of all the ones that we've chatted to it's the most complex because of the different thresholds and the different income paces. Your passive income in total needs to fit roughly under 80% as well, I think it is. For a lot of people running businesses, again, it's quite a broad piece that I think they would fit under, but I think get some specific advice on that one.

Owen:
Now we've got something that's related to a business, but I think this is for everyone as well, is this work from home. So I spend a lot of my week working from home these days, mate. I know you do, we're recording this, you're at your house, I'm in the office in Melbourne CBD. The work from home allowances basically means home office expenses. People want to know, what can I claim? And I think from the discussion that you and I had recently in the webinar that you did, I think there are two methods effectively.

Jacob:
Yeah. There are exactly, and basically the ATO and the government in general have, I think it's a great initiative in terms of lifting the base rates or how much you can claim per hour from working from home. So if you think about, like as you said, I'm sitting here working from home, I've got the internet going, I've got the lights on, I'm sitting at a desk that was purchased during COVID, all that stuff has been happening. The ATO want a practical approach to enable people to basically claim a deduction as simply as possible, given how many people have been impacted and are actually working from home or at least have been.

Jacob:
In the past, you used to be able to claim a lower amount, so 52 cents an hour, for things that you were using. So say it was electricity and power in general, it might be heating and cooling, that sort of stuff. And even it's pretty hard to track to know how much you're using at home compared to privately. It would be a nightmare to go through and try and work out. So the ATO said, "We understand that, we'll give you 52 cents an hour to claim at home. During the COVID period, which is now the whole of this FY '21 tax year importantly, you can claim an increased rate of 80 cents. So it's a big jump. It's not a gimme, but they've increased, let's say a couple of cents.

Jacob:
When you're talking about total hours working from home, 52 to 80 is a really big jump. So I think it's a good one that people should be aware of. The way, I suppose, talking to clients, thinking about it, if you're someone that doesn't have heaps of additional expenses outside of say, the stuff that we've talked through, heating and cooling, the odd desk, cheap wifi, and that sort of stuff, I think the 80 cents method is super relevant. It doesn't need to, say your contract, this is another common question we get, all my contract says that I work through seven and a half hours. If I got audited with the ATO, say, "You can't claim 50 hours a week, your contract says 37." You don't need to get into that level of detail.

Jacob:

If you're working above your usual, just claim whatever is that you are working. So if it's 10 hours a day, you're claiming 10 hours of every single right. And the only extension of that I would say is, there's certain things if you do claim that increased rates, you can't claim then on top of it importantly, so that could be like phone and internet, it could be other computer devices that you're using, that sort of stuff. You could only claim in addition if you're using the standard, which is the 52, not increased at 80.

Owen:
So basically there are two ways to do it. Let's call the shortcut method is just to assume 80 cents per hour that you're working from home. And the other way is to actually get into the weeds a little bit more and try and work out the different things that you're able to claim. I know you've got some information on this, so we can point everyone to that, but this is super important for a lot of people, professionals in particular like white collar workers. That's what I mean by professionals, working from home, this is just, I think you used the word gimme before, I think this is like a gimme money. If you don't claim this and you're doing your tax return, you'd be crazy not to just at least look at this and just even use the shortcut method.

Owen:
So check that out. We'll put links into Airtax there, mate. The other thing is a lot of people, other than home office, a lot of people are thinking about car expenses. We've seen an explosion of people buying second hand cars because they don't want to take public transport during COVID, they don't want to... Through all these different things that they might normally do, people are moving further away from the city, people are just embracing that country air, and they need another car. So they buy another car, which they might use for part of their work or all of their work. How does it work in terms of claiming deductions for a car? What threshold do I need to meet to actually be able to claim anything?

Jacob:
Importantly so, I think thinking through, if we come back to our tragedy example where we see a lot of traders that use their cars really regularly for business, driving to different sites, they might have a car that can actually carry tools and things within it as well. So it can fall into some different roles as well, compare that to someone like me, I sit at home, drive out to the odd client site every now and again, but overall, really uses their car for personal purposes, I think there's two different methods of, or I know there's two different methods of claiming, and I think you need to work out which one suits you most.

Jacob:
The easiest way to think about it is, the 5,000K limit still exists. So generally speaking, if you're someone that uses your car just for the odd trip, you're not going to exceed that in a year, depending on where you live. And importantly, if you've got a fixed place of work, so me going into the PwC office building, if it's raining and I want to drive into work for the day, I couldn't be claiming that just driving into work where I usually work.

Owen:

So it's got to be the next part that you go to, the thing beyond the fixed office, is that right?

Jacob:
Exactly. So if I'm going into work and then out to a client and I'm driving out to the client's site, then that piece is definitely, that would fall into the 5,000 case as you've described. I think overall talking to how someone that uses their car regularly in terms of whether it be a small business owner or just an individual through their day job, needs their car and really relies on it and uses it well above the 5,000Ks, you need a log book. And so what the log book does, you can keep it for a 12-week period. There's a lot of information out there, I think the main crux of it is that you need one. A lot of people need to be organised with it. It's like going for your learners again almost, that you just need to do it.

Jacob:
You need to basically bite the bullet, pick a period that you are necessarily driving a lot for work and keep a good log book that's organised. So what it does is show... It basically breaks out a personal and business percentage for what you can claim for your car, is the easiest way to think through. So what I mean by that is if you're driving 100Ks in a week per your log book, you're just paying a half, and 50 of those is like we said, business trips, so driving to different sites, driving to see clients, all that sort of stuff. And then you've got on the other side of that 50Ks, which is driving to the shops, driving to see mum and dad, driving to see your girlfriend, that's your personal use.

Jacob:
So you've got in terms of what your business percentage does, so that 50%, all your expenses that you're claiming to do with your car, or most of them, you can then claim at 50% in your return, importantly. So a couple of things, you can't claim fines for racing around, including lights, you can't claim 50% of your funds. There's few others, the specific one that you can't claim, but I think if you're using your car a lot, that's what I really mention to people, keep a log book, basically get organised before the end of the tax year, because that's one of the ones where if you had really high mileage and you're entitled to it, perfect. But if the ATO looked into it, you'd want to just be able to provide a log book rather than racing around trying to say, "Oh, how did I come up with that figure?"

Owen:
Yup. Is there an app that the ATO has for tracking this type of movement? I feel like in the past, there might have been an app where you could tap a button and it monitors your GPS to see where you go on your phone. I could be wrong, if I find that, I'll dig it up and put it in the notes.

Jacob:
Basically they're there, they're a hype out there. And I think Airtax has got a log book, the ATO's got a log book. Just whatever you get it from, use it well, you only need to do it for a set period and then you're good.

Owen:

Okay. We've got two more and these can, I guess these are a bit of fun. The first one in particular, which is, I'm calling it Bitcoin bonanza. And I'm saying that this is a hypothetical example, a very, very hypothetical example. I'm going to use a character called Dilbert. And Dilbert used his credit card to buy some Bitcoin at $78,000, so the Bitcoin was trading at $78,000 in April, 2021. That's when the fear of missing out was really high. And by early June, 2021, so just a few months, not even a few months later, Bitcoin was then trading at $48,000. And Dilbert realised that owning Bitcoin was both scary, and we'll just say, a mistake is the politically correct version.

Owen:
So he sold it around about a 30% loss, Jacob. He bought this thing that he thought was going to be "investment" and he sold it for a 30% loss a short time later. Is that an example of a tax deduction?

Jacob:
So, like Dilbert's thinking, he's got it all guns blazing, although it hasn't necessarily done that well. So, is it a tax deduction? I think there's a couple of important points to break down what it means. I hate using the term quarantine given the way we've all been living recently, but quarantine is also a tax term as well. What we do with losses like this is say, and Bitcoin's an interesting one, because there's two types of it. You can have Bitcoin trading as a business, or you can have paper work shares that just make capital gains and losses on Bitcoin that they're trading, so two important distinctions there.

Jacob:
But for Dilbert, basically he sits in capital gains world, which means he can offset that 30K loss on other shares or Bitcoin that he's trading that he makes gains on, but he couldn't necessarily go the extension of claiming that against salary and wages that he's earning. So we say quarantine in the sense that we draw a big circle around it and say, "Okay, that sits in capital gains land, your salary and wages sits separately. And therefore, we need to track those." Overall, there's a couple of different ways that you could look at it. And so depending on how much trading is doing and that sort of stuff, but it sounds like as a one-off, that's how Dilbert would run through his return.

Owen:
Yeah. And so if he didn't have enough capital gains to offset all of that loss, he's not going to have a very good time come tax time. But if he had made gains in other things, like let's say he bought some shares or he bought something that made him money, he might be able to balance those two things off the loss with a gain or something like that. And I think that's a really interesting one because yeah, it's painful for Dilbert, and it's also to your point too, I think this is my bias as a long-term investor. I think this is where long-term investors win is because you are an investor and not so much a trader, so you don't have this constant friction of capital loss if you do tend to lose something.

Owen:

Last one, Jacob. A lot of people getting involved in the sharing economy, I know you do a lot of work with gig economy workers and people that are maybe even have side hustles. I know you do like BAS returns, like a BAS if you just know, it's all caps, you'll probably see that written around the place. If you don't know what I'm talking about, you can find out more on Airtax website. So I'm going to say, Stacy is a hustler, she's working two extra jobs, or she worked two extra jobs during COVID. She's 28, and she works as a hairdresser full time. So that's a full-time job. She's on PAYG, that's how most people think about it, that means she gets a pay slip and it says how much super was deducted, etc.

Owen:
The money goes into her Australian Ethical Super Fund and withholds that part of their tax for her super fund. She also got two extra jobs during COVID. The first one is she worked on ABM, so she applied for an ABM, which I know you can do through the government website as a night shift worker at Bunnings fulfilling orders. So she was the one that was probably packing my orders when I was just bingeing on Bunnings orders during COVID. So she invoiced for that because she was a subcontractor and she got the money paid to her account. So she hasn't necessarily withheld her own tax, she's just got the money and she thought, "Great, this is wonderful."

Owen:
The second thing that she did once the Bunnings work ended, she did some extra work on Airtasker. She thought, well, "Hey, I was doing that extra work at Bunnings, why don't I keep doing that and see what I can do." So just as a very high level, this is a very niche example, but I only bring it in because there are a lot of people jumping between jobs this year. How can she think about preparing her tax return for the current year, so the year ending June 30?

Jacob:
I think it's a super relevant example and I love the side hustle. I love Stacy, she sounds like a very hard worker, which is awesome.

Owen:
Yeah, she is.

Jacob:
I think when you're coming through, if you're a sole trader, the easiest way to think about it is you've got one return. So everything, salary and wages, business income, will fall under the same return that you're filing either October, or you might have an extension if you use a tax agent. So it's an important point that you make on the PAYG piece, because this is where we see a lot of small businesses get stuck come tax time, and that's because you're used to as an employee, just basically having taxes taken at source. So every time you paid, you have a bit of withholdings attached to the income.

Jacob:

When you are, whether it be like working in a small business, or you might do a bit of consulting, whatever it might be, and you're earning additional income, you're just invoicing as Stacy is for the work that you're doing. You might, depending on how long you've been operating your business, you might have, say quarterly periods where you pay tax, but otherwise, you could get to the end of the year where you haven't paid any tax on that income. And so when she's working through her return, she may, depending on how much work she's been doing, have tax to pay on that income, importantly.

Jacob:
So I think when she's working through her return, she can keep track of all the expenses that she's either as an employee, or as a contractor, or small business operator, all those go into the one return. There's different sections, the breakout where it's reported, but it's the same overall document, importantly. And I think another common question is, can she use the same ABM? She can, importantly. So if she's got a number of different businesses, you don't go and apply for different ABMS for each of them because that would be nasty at tax time. The only other thing I think as a practical example is don't necessarily, and this is a specific piece again, so chat to your tax agent, as we said at the start, but don't necessarily jump into registering for GST.

Jacob:
If you're just doing a little bit, say you're in a rideshare service, you have to, and if you do rideshare and something else, you're in for all of it, so on all of your income, but if you're just doing a little bit of consulting work or Airtasker, or whatever it might be, don't just register for GST straight up. The only reason I say that is we see a lot of small businesses that are under the 75K threshold, that they've registered for GST. It's just an additional compliance piece for them. They might not necessarily be getting that much tax back or GST each time they're doing their business activity statement. If they haven't registered for GST, this affects their return because I can just include the total figure in their end return.

Jacob:
They don't miss out on it in effect, but it just helps simplify your taxes that you're not then going ahead and lodging these quarterly business activity statements unnecessarily. So that's one where you can definitely reduce your cost of compliance for one, and just, I suppose, the work involved in actually following a return for someone like Stacy. So you're being informed about that.

Owen:
Just one more thing actually on this. So if Stacy, let's say she earned $50,000 just round figures, the way I understand GST is if you're a small business and you're going to turn over $75,000 or more. So it's not based on what you've just earned, but what you're expected to earn, so $75,000 or more, you have to register for GST. But let's say she earns $50,000 from her hairdressing and she's expecting to earn 25 or $26,000 from her ABM, would she have to register for GST in that regard or is that separate from her PAYG? Do you get what I mean?

Jacob:
Yeah. Super relevant point, one we say all the time, it's that quarantining again. So drawing a big ring around her salary and wages, keeping that completely separate and saying, "Does the income that I'm earning just from non-salary activities, so just through my business, is that above 75K?" So in that example, it should be well under the threshold and she wouldn't need to register.

Owen:
Okay. Because that's just, I guess, 50 and 25 is the thing that is pretty far apart, but if someone's thinking, "Oh, I'm earning $65,000 as a hairdresser and I'm going to make $10,000 from this consulting because I'm doing some new educational course on YouTube, do I then have to... " That's a pretty relevant question for a lot of people.

Jacob:
Absolutely.

Owen:
That's 10 things. I feel like we've covered like 50 things in this hour-long session, which tended to be a bit shorter than that, mate. Can I just ask one final question, do you know what the average tax return that someone gets is? Is there a figure out there that people quote? Is a whole of it fairly? What's the average?

Jacob:
Overall, it's a bit over 2K, I think it varies year on year. There's definitely data from the ATO that looks at, like we said, what your occupation is and how much income you're earning to get to what your average is. But even if you use a tax cytology return, it'll give you what the average is based on your occupation and how much you're earning as well. So if you go back to that Michelin example, in terms of the ties, you might stand out if you're earning 50K and claiming 20K worth of deductions, either you completely justify, like we said, and you might be a small business with eligible things that you're writing off. Good, perfect. Don't be afraid to claim it, or you're really pushing the boundaries on some pieces and importantly, something's gone horribly wrong there, and you're probably at more risk than someone else in terms of the ATO looking further into your face.

Owen:
That makes sense. I just think that to all the things that we've discussed here, I feel like the listeners of this podcast that I've heard you talk today, I think for most people, if you're earning a decent income or your partner's earning a decent income, your children, whatever, your friend or colleague, if anyone listens to this episode, going from contributing extra to super, or just contributing to super and getting a tax return, if you're a small business, thinking about that job, make a plan, that instant asset write off, you work from home, if you use the shortcut method, to be honest, I think I'm going to use the shortcut method because it's probably easier for me.

Owen:

And even then like deductions on car travel, going from your point of work to the next point, or if you're tradie or whatever, if you've got trading losses, if you're having to buy Bitcoin or you got trading gains, or if you're just trying to work out your small business in the sharing economy, I think there's so much that you can do just based on these things that we've talked about, Jacob. I think people can really give their tax return a red hot crack this year. I'm going to give a big shout out because you and I have done some work together previous to the running, I give a big shout out to Airtax by PwC, which is your employer, it's where you work.

Owen:
I know you do like a simple tax returns that you can lodge online. You even have this portal where people can get feedback from an accountant, qualified account actually looks at the return. And then there's like a full-fledged service as well. And it's pretty, I was saying to you before we jumped on, I think it's pretty reasonable considering what I've seen some accountants charge if you want someone to look over your tax return. Where can people go to find out more about Airtax?

Jacob:
I think the easiest way is to jump on the website, so airtax.com.au. And we've got all the services listed there. So as you said, reigning from $99 as a price point right through to 349 to file income tax returns. So I think, yeah, jump on the website, there's a help centre there. So what the help centre is, is basically a range of different articles, a lot of the stuff that we've chatted today, all for free. You can do some Googling, but you can also use that help centre as almost like a reference guide to break down some of the stuff we've chatted too. But also, give us a call, and I'm also on the website as well. If you want to just chat through something before jumping into a paid service, by all means, we're happy to do that. But yeah, the website's in easiest.

Owen:
You mentioned that Airtax has a log book there. I'm just thinking for the tradies or for people that are using their car to go between clients or whatever it might be, is that something that they can access on Airtax? How does that work?

Jacob:
Yeah. You can jump on the help centre, you can basically just look up the log book and download it. It's almost like an Excel that tracks your mileage and it gives you an overall business percentages that then you can use for your return. Exactly.

Owen:
Oh, cool. These are really helpful tools that you can get online, every one that's listening. If you're listening to this and you think, "I'm using my car," and you're going to keep using it, take advantage of these tools. Cool, mate. I really appreciate you coming on the show. It's so good to talk to someone who can answer the good questions, the meaty questions. Have you read Rich Dad Poor Dad by Robert Kiyosaki?

Jacob:
Robert Kiyosaki is one of my favourite men in the world, so yeah.

Owen:
I definitely talked about this last time, but he has the thing in his book, Rich Dad Poor Dad where he says, basically, if you're paying 30% tax every year, you're working for three months of the year just for the tax man.

Jacob:
That's scaring someone.

Owen:
Figure out a way that you can get that down. Jacob, you've done just that, so I really appreciate your time today.

Jacob:
No worries. Thanks so much. Thanks for having me. It's been an absolute pleasure.

Kate:
Thanks for tuning in to this episode of the Australian Finance Podcast, where our mission is to improve the financial futures of all Australians. If you'd like to learn more, create a free account at rask.com.au/account to download free episode workbooks, bonus resources, and take our amazing free personal finance courses.

Jacob:
You can also join our online community by following the link in the description. If you enjoyed the show, what we'd love is for you to leave us a snappy review on iTunes, and you can follow us on Twitter and Instagram @raskaustralia. Kate and I are also on both of those channels. Finally, if you have any feedback, suggestions for episodes or guests to come on the show, or you just have a question for us, shoot us an email at podcast@rask.com.au