The Australian Finance Podcast Episode Transcript

Episode: Jacob's 10+ tax time tips | expert 2021 tax hacks for PAYG, Property, ABN, ETFs & Share investors
Release Date: 05/07/2021
Speakers: Owen Raszkiewicz & Jacob Fenech
Duration: 43:27

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Episode transcript:

Owen:
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Owen:
Jacob Fenech, thanks for taking the time to come on the podcast again, mate.

Jacob:
No worries. Yeah. Thanks very much for having me back on. I appreciate it.

Owen:
Yeah. I'm putting you through the pain again of recording another podcast, but we're talking about something cool, which is 10 ways to save at tax time. And you're going to give us some

interesting ideas around each of these key buckets for people. So we're talking everything from people that invest in property or shares, people who are PAYG, people who maybe have their own small business, working from home, all of those things. But before we get into that, mate, I just want to ask you if you have any tax jokes. I actually, to prepare ahead of today's, I guess, how do I put this? Grand reveal of tax jokes, so let's just hear them straight out, mate, what have you got for us?

Jacob:
The first is cheating, because I already told you this, but we can pretend I haven't. So the easiest way to teach your kids about taxes is to eat half their ice cream. I don't have kids myself, so I don't know how quite that would go down if you were to do that, [inaudible 00:01:39], but help them build their tax skills. The second one is very cringe-worthy, but I'll try not to picture it. I just heard that atheists are to trying to get tax exempt status in Australia. They are claiming they're a nonprofit organisation, so they shouldn't... You can fake laugh off that one too.

Owen:
That's a real laugh. That's a real laugh. I particularly liked the first one. I liked the first one because if you eat, say a third of their ice cream, the idea is that that would be a third that goes to the tax man, right?

Jacob:
Mm-hmm (affirmative). I think so.

Owen:
So it's a joke and it's a good way to teach kids, and you get ice cream.

Jacob:
Yeah, good analogy. I like it.

Owen:
Cool, mate. I like it. We've got some ideas for people here about ways to save on tax or at least try and think about your tax in a way that makes sense for you. When Jacob and I talk about this, the Airtax team at PwC, we'll put links in the show notes, have heaps and heaps of updated articles on this. So you can go and find out all this stuff on their website. So we'll put links in the show notes. But Jacob and I just want to make sure that you understand that even when we talk about tax, we're talking about it in a point in time, tax rules change all the time. Our last episode was about the changes to tax and there was heaps of them.

Owen:
And also, we don't know everyone's situation. So even though Jacob and I are talking about creative ways to think about tax and try and get that bill down as best as you can, it's important to remember that everyone's situation is different. So go and speak to a tax agent before you implement any of these plans. I think a really good one is, we've got those instant asset write-offs for a lot of people at the moment, but that might not be appropriate for everyone. So

make sure you get that expert counsel before you go and implement anything that we talk about today, because there could be better ways for you to save money or make money depending on your situation, and we just don't know what that is.

Owen:
So without further ado, Jacob, I would like to pick your brain, one tax time tip for businesses. What have you got for us, mate?

Jacob:
I think businesses is an interesting one, and I think when we talk about businesses, I'm probably coming more at the small business, sole trader angle. So I would say definitely what we see when we are helping individuals that are running their own business or are either just starting out as sole traders, and I don't want it to sound too boring, it is super crucial. I think getting ahead of the game when you are starting out is an even bigger point, so strong record keeping is just fundamental, whether it's... The excitement of starting a business is awesome, and jumping into how you're going to build, whether it's customers or revenue, whatever it might be, that takes the majority of people's attention, because obviously, you want to start out, you want to jump straight into it.

Jacob:
But having a formulaic or at least relatively formulaic way that you're tracking your revenue and your expenses throughout the year, rather than getting to tax time, which is when a lot of people think of it and start working backwards. So I think that is the first. Two, to really have a strong basis of how you are doing that, whether it's an Excel spreadsheet, whether it's actually working with, say, a tax agent during the year, as well as at the end of the year, I think that's where we see a lot of success with, particularly small businesses too. So that would be my first.

Jacob:
The second is, and this is something that we talked to in the previous session as well, but have knowledge of what the incentives are out there. There's a heap of small business incentives, whether it be like increased appreciation, a specific tax's one, but there's also grants. So I think be aware of those, be willing to put in at least... A lot of them, you do need to make sure that they're relevant to you, so whether that's yourself working through that, or it's a tax agent again, I think just doing some homework on what they are and how you qualify, is super important, particularly in those early days.

Jacob:
If you can be boosting, let's call it revenue by any of the tax incentives or even just cash incentives, I think that's huge. So be knowledgeable about what they are and how to get them. And I think that's at least in your first year is a big one when you're starting out. The final one, and we can come back to either of those as well is understanding the structure that you want to get into as well. So don't necessarily be chatting to say someone that's also a small business owner and think, "Okay, he's say, incorporated himself. So he's gone down the formal route of

setting up the business and everything else, and therefore, automatically think that that's relevant to you.

Jacob:
I think get some specific advice around if you are just starting out as a sole trader, maybe the sole trader piece is the simplest and best for you. So all I want to say on that because it's a complex area, but it's really important to basically pick a structure with the help of someone that best fits your circumstance because you can very quickly I suppose, set up additional pieces that might just be more burdensome in the long term. So you can always transition depending on how your business is going at a point in time, but a lot of the more, I suppose, specific structures have then again, specific tax filings and you might be dealing then with ASIC and the ATO.

Jacob:
So I think definitely before you are jumping straight into business, work out what the best structure is for you.

Owen:
Yeah. I think that's super important. I think a lot of people, particularly people that are thinking about doing like side hustles and those side hustles start off small, they think, "Oh, it's not a big deal. I'll just do it." And that's great. And you should always follow your passion and that's probably where it should start, but at the same time, getting even if it's a little bit of advice at the beginning to set up correctly is really important. I will also just reflect on one thing there from my personal experience is when I started Rask, we over-engineered it. We had about three corporate entities to trust all this stuff because we thought, "Well, this business should be separate to that business. If we ever wanted to sell this one, we should do that."

Owen:
But I think that was just the wrong way to go about it. I think maybe just getting a different opinion on that would have been really smart early on. So that's definitely my mistake and something I wish I had known. How about, mate, if we talk about people that are investing in shares or ETFs. So on this show, we talk a lot about ETFs in particular because they're an easy vehicle for beginners, but even shares, what are some things that people can do around tax time if they are investors in these types of things?

Jacob:
Sure. I think the first one, the first in top is, look at what platform, so how you're tracking your shares, there's a million different ways out there. And I know you definitely talk about some of these on the show, but particularly at tax time, what I've seen is there is 100 different ways that you can be presented the information depending on what platform you're using or how you're tracking yourself. So if you are using a platform that issues, say a tax statement at the end of the year, I would almost before you're picking and choosing which one you are investing in, I would be going through and having a look at how the information or even requesting how the information might be presented at tax time.

Jacob:
All I mean by that is, sometimes you can get a booklet that's 100 pages long and that's no exaggeration, 100 pages long that you're then trying to decipher at tax time. Even if you've just made it a couple of trades during the year, what your, say your cost base might be and what the sales proceeds, say for shares that you sold, is at the end of the year to try and work out what you're reporting in your return. So I think there's some really creative ways out there and great presentations for companies that actually put forward that information around what's necessary for your return, but I think before you are doing any sort of investing, work out the best platform and probably the most straightforward presentation, because it can be difficult once again, to work backwards, to try and find that information if it's not easily accessible.

Owen:
I think that's a big one for investors is just understanding all the different bits of paperwork and what actually goes on tax time. Obviously, you've got to record any income that you earn as well as any gains or losses on sales, which also can get complicated as we mentioned last time around whether it's a short-term gain or whether it's a long-term gain, and the same philosophy. We've talked about share site and even most brokers these days provide basic tax reporting, but sometimes it's still better to keep your own files and records. So a good tip, mate. Have you got anything else for investors in shares and ETFs?

Jacob:
I would say overall, definitely just a knowledge of the rules, there can be a big difference between holding a share for 364 days to 367 days, for instance. And that's around the 50% discount. So no rules like that in terms of holding your share safer for 12 months or longer to qualify for the 50% reduction is really important. It might be something that the audience is completely aware of and great, but for anyone else, just knowledge of the rules is a big one.

Owen:
And I totally agree. A big one is, I think when people are thinking about investing and they often think that investing is the same thing as trading, which in my experience is totally not the case. And one of the reasons that trading in my opinion does not work is that every time you buy or sell, there is a capital gain or loss that is incurred. Whereas with long-term investing, yes, you pay the capital gains, tax or loss, but sometimes there is a discount, for example, for holding it for more than a year your investment. So that's just something that is super powerful as well as we also have franking credits in the share market, which also pass through ETFs.

Owen:
So we've talked about those in the show, we'll leave it there, but there's another really interesting angle here, Jacob, which is something that we don't talk about a lot, which is property investing. So people that might have like a rental property or even their primary residence, i.e. their home, but they don't understand the tax implications. So around tax time, what are some things that people should be mindful of?

Jacob:
The first one might be a bit different, and I wanted to try and think of something that people may not have had, say a heap of exposure to, and you alluded to it there. In terms of your main residence, Australia is quite unique in terms of the tax war around what you can actually do with the property that you've previously lived in. And one of those, I suppose quite specific rules is that you're able to rent out a property that you've lived in. So you've lived there for a period, you've established it as your main residence, whether or not you, say, move overseas or you move location, say, to a rental property even, that you're actually not the landlord or you're just renting in general, you can rent out a previous main residence that you've lived in for up to six years and not subject that property then to capital gains tax when you come to sell it.

Jacob:
So it's a pretty big window for say, gains on a property that you would usually be subject to capital gains tax on, if you've previously lived in it, you can rent it out for up to six years and then, say, even move back into it and start that clock again. So that's, once again, it's a specific one, but I think it's underutilised. And I think it's one where it's quite unique in terms of taxes in general. Australia has some really convenient rules around main residence and how you can limit your tax on your property. I'm not sure if you want to talk about that one any further.

Owen:
Jacob, I bought a house, we were just talking about this off air, I bought a house less than 12 months ago now. I've been living in it ever since. So if I lived in that for the next six years under the current rules as they are today, I could then rent that out for a period of time. And then if I sold it, it would still fall under that. And let's say I rented it out for a year, so I live in for six years, rent it out for a year and then I sell it, that would still fall under the primary residence capital gains tax exemption, is that right?

Jacob:
Yeah. And so there's no exact number of months or years you have to live in a property to make it necessarily a main residence. Usually a good rule of thumb is at least six to 12 months where you've been living in the property, but what then you can do, say you've lived in that property for 12 months, you can then rent it out for up to six years, which is a huge window really, if you don't and you're renting another property yourself, you're not owning it and classifying that as your main residence, because you can only have one, but you can live in it for 12 months, then rent it out for up to six years and exempt the entirety of any gain made on that property. So it's a big one.

Owen:
That's really interesting. I don't know why we didn't know that, that's really interesting. So cool. But there's also, I know this, you didn't put this in your notes or I can't see it in the notes anyway, but you can't have your primary residence rule and then rent it out for Airbnb for a year, can you? Let's say, if you bought an apartment, then you moved back in with your parents, if I only own that place for a year and the whole time it was Airbnb, even though I could say it's my

home, it's not actually the right structure for tax reasons. You wouldn't be eligible for that exemption, would you?

Jacob:
I think this is a super relevant to point, Owen, that you need to, particularly with less formalised rental structures like Airbnb as a platform, which I think is awesome, and it's such a good vehicle for people to generate cashflow, I suppose. It's becoming more and more common, but through, say, rooms in their house or even the entirety of the house as well, even people that are wanting to travel as well, they can put up their property on Airbnb. What I would say to your point though is, to work out what the tax impact of either renting the entirety of the property is, or even renting a room, because what you can do is actually subject a property that you've been renting, even a room out, depending on, and this is quite complex as well, but depending on how long you've been renting it and whether or not you've actually had other people living in it or living in it yourself, subject at least a part of the property to capital gains tax.

Jacob:
So I suppose breaking it down, the first part is, in order to qualify for the main residence exemption, you have to have lived in the property prior to renting it out, is a really important piece. Even if you don't have another main residence, if you've been living at mom and dad's and you've never actually lived in that property yourself, and that means physically living in it, it doesn't mean just really basically changing it to your mailing address, is a common question we get. It means you have to physically be living in that property. You may not necessarily qualify for the main residence exemption, even if you don't have another one out there.

Jacob:
I think there's a couple of things that we could break down further, but I might just leave it there. Yeah, it's worth doing some homework, getting potentially some advice on it, particularly for something as big as investment as a property, but certainly making the most of the main residence exemption where it is applicable because it's a huge one.

Owen:
For sure. That's the thing. We're talking about some interesting things here. Like if you're investing in a property or you own a property, you get the right advice because it could save you a heck of a lot of money come tax time. So the next category, which I'm hoping you can help us out with, is basically people who are on PAYG. We use the term PAYG, it just means pay as you go. It basically means your employee is taking your tax out for you. And you would be a PAYG employee if you are a full-time employee, if you have a contract, like a permanent contract, they should be putting your super in for you, they should be withholding the tax, etc, etc.

Owen:
So you would know at the end of the year, you're going to get a statement from your employer to say how much taxes you paid throughout the year, what your earnings were, etc. Nowadays, Jacob, if I'm not mistaken, most of these things are automated through to the ATO portal, so you

can access it on myGov, but what are some tips for people that might be on pay as you go or PAYG?

Jacob:
Yeah, definitely. So as you mentioned, and for employees, a couple of years ago, there was basically that transition to single touch payroll. So you don't get that old school form that we're both used to. We used to get a couple of years a printout of that. Generally speaking, it would be on the employee portal as well as myGov, or your tax agent has access to it as well. I suppose my big point for people that have big deductions that they're claiming at tax time, they might have a negatively viewed rental property, whatever it might be, something where we're talking about substantial deductions, where you're getting cash back at the end of the year, if you want to improve your cashflow, you can actually vary the withholdings that are applied, whether it's fortnightly or monthly, each time you're being paid based on deductions that you would claim at the end of the year.

Jacob:
All I mean, by that is, you can smooth out those deductions to reduce your withholding and increase your net pay that you'll getting monthly or fortnightly, as we said, rather than getting that big refund back at tax time as well.

Owen:
Jacob, so you're saying you can say to your employer, "Take a less tax out for me"? Is that what you're saying?

Jacob:
Yeah. Basically, and when I say basically, exactly, I think it's worth having a look at, either whether it's jumping on the ATO website or having a look around varying PAYG, because once again, there's some specific rules on how you do it and when it's relevant. But exactly, as you said, you can increase your net income each time you're paid rather than getting that lump sum. Some people lock that lump sum to own. It's like almost for savings come tax time, that they enjoy getting that back. They they might use it, say to top up their superannuation, or they might use it even like a holiday account as well, who knows? There's a million different ways they could.

Jacob:
So it may not necessarily suit everyone, but you can potentially smooth that out during the year, to as we said, avoid that big chunk at the end and get the benefit of that throughout the year.

Owen:
Oh, cool. I really like that. I didn't know that. I know that that's the way it works, but I didn't know you could actually vary it so well and so easily, so awesome, mate. How about our fifth category, which is retirees? We have a lot of younger people that listen to this show, so anywhere between just starting out thinking about money right up until, say, 45, but then we also have people when we have events, which are heaps of fun, and I'm so looking forward to getting back

to doing some more. When we have our events, there are a lot of people that are in retirement or thinking about retirement and they're investors and they're learning about money and just better ways to spend and save. What might be some ideas that you have for people who are retired or near retirement this tax time?

Jacob:
There's a couple. So one, particularly what I see for retirees overall, is a need to properly plan their cashflow. So to help chat further to that all, what I mean is that there's a lot of things that get Band-Aided across when you are earning income in general. As soon as a main source, whether you're an employee or a sole trader, and you're coming to the end of the process, looking forward to those retirement years, you want to know and you want to plan out what your superannuation looks like, you want to know the balance. A lot of people, crazily enough, don't even know how much is in their super. So definitely, when you come to the years just before retiring or best case as you go, be planning out what your super balance is and how much you're looking to retire on.

Jacob:
Because generally speaking, there's a lot of tax concessions around the cash that you're getting from your super fund once you do retire, when you have to meet requirements around age and certain things. But yeah, plenty of cash flow because you can't Band-Aid it across as you might have with a salary, you're thinking, "There's expenses there. I don't necessarily need to track them each month because I've got a regular salary coming in." I think once you get to retirement age... It's something you probably look at in your 20s and 30s when you're looking to, say, that initial house and start creating a budget and that sort of thing. But I think it's definitely worth redoing that when you are either coming close to or having retired, to help look at what your income and your expenses are outside of just a salary where you've been used to receiving that.

Jacob:
The second thing, and this is a minor point as well, but it does definitely, I've seen questions on it, is if you've got, say like a really basic hobby that you are earning income from, depending on how you're going about it. So if it's just a really basic, like you're you might be selling things online that you have to, say, declare at tax time, or you might just be completely irrelevant to profit generating things, you might just be making small things and selling them on the side.

Owen:
Like woodwork.

Jacob:
Yeah, exactly. There could be some different tax implications around what you're doing and you may not necessarily need to be declaring everything. So I would get some, not necessarily proper advice, it doesn't need to be overly formal, but at least have a chat with someone that knows the ins and outs that can tell you if you need to be declaring that or if it's just hobby

based and there's nothing that needs to necessarily be filed with the tax office in relation to what you're doing.

Owen:
Cool. I like it. Yeah, a lot of people, I know that transition into retirement, and I can think of one carpenter off the top of my head who's transitioned to woodwork and making really nice intricate boxes out of really nice timber that he can sell. And it's just a hobby for him, but it also happens to make some income. There's a lot of people in that situation, a lot of people go into things like crops and pick up different things on the side. And some people just want to work as well in retirement, pick up a few days here or there just being involved in the community. How about sole traders? You mentioned it at the top of the show that businesses like your, I guess, principal focus and your bread and butter at Airtax is small and medium businesses, but also individuals, but sole traders are somewhere in between individuals and small businesses.

Owen:
So if someone's out there, they are sole a trader, I think maybe they have job, maybe they don't, what would be something that they can think about come tax time?

Jacob:
Yeah. So I think there's a couple here, a couple of quick wins. One, and this is something that we mentioned in the previous podcast as well, but when you're looking at whether or not you need to register for GST, when you're coming up to the threshold, so that's 75K threshold on income, you don't need to include salary and wages that you've earned as an employee. I want to really just recap on that one, I know we've chatted to it previously, but it's a big one. Don't necessarily register for GST where you don't need to because it can be an admin burden. And if you do need to keep up to date with your business activity statements, because that's another one, it's actually quite hard to go backwards and bring yourself up to speed when you don't necessarily, whether it's record keeping or otherwise, when you're trying to work out quarterly what your revenue and expenses were.

Jacob:
A lot of people have an idea around the yearly amounts, but I would say definitely don't fall behind with your business activity statements, which I know sounds simple, but it's one we see all the time. So that's a big one, only registered for GST if you need to. Know what makes up that 75K, and if you do need to, keep up to date. The other one is, there's a big difference between tax time as a sole trader and tax time as an employee in terms of what can be cashflow repercussions. What I mean by that is, say it's your first year starting out as a sole trader and you're doing whether it's a small business or some good consulting, say on the side, you're not going to have withholdings on those amounts that you're earning necessarily, you might just be invoicing the business that you're working for.

Jacob:
You might be selling items outright and you're issuing receipts and collecting cash, but you're not necessarily paying any tax at that point. When you then as a sole trader, when you come to

file your tax return, if you are making a profit, which hopefully at least when you've, you've been doing it for a little while, you can come to a point where you are making a profit would be the idea you're necessarily then going to have to pay tax come tax time, which is very different to an employer that's had withholdings during the year. The ATO may, after you've, say, been trading the first year or going forward, put you on instalments, which all that means is that you can pay your tax annually or quarterly based on your profits, say, from last year, is the easiest way to think about it.

Jacob:
But until you've got that process in the works, if you haven't been paying tax during the year, you're going to have to pay tax at tax time. So be parking, whether it's, I don't know, 30, 40% of the expected profit, just be putting that aside. Even if you don't use all of it, when you actually do come to file your return, it's a good safety net rather than having to foot the bill in a lump sum when you come to file that return.

Owen:
Yeah, it's so important. I see so many people that start out in business that don't put money aside for tax. With most good business banks these days, you can set up separate savings accounts for nothing. You can just attach them to your main account and you can just put the money into that account. A really simple rule of thumb, as you said, 30 to 40% of our profit. If you don't know what your profit is going to be, it's almost always better to be conservative, I find, even if that means putting aside a quarter of whatever you bring in, that's 25%, $25 for every $100 you bring in.

Owen:
At least at the end of the year when it comes to paying tax, if you're more conservative and you save more tax throughout the year, chances are, you can keep a bit of that for next year or you can roll it over into the next year as a safety buffer for your business. So you're better off being conservative and saving more than not saving at all or just winging it and seeing what happens. So those are some great tips there, mate. The next category is something that we talked about last time as well, which is this work from home movement. And this applies to basically everyone that works from home, whether you're a sole trader or you're a business, or if you're an employee.

Owen:
Everyone's been at home this year, basically across the country, mostly in Victoria and New South Wales, but there are some specific, I guess, rules around this and what you might be eligible to claim at tax time. So can you just share maybe any of the tips that you have here for the work from home movement?

Jacob:
Yeah, definitely. Definitely. The easiest way to think about it is, when you are working from home, the ATO has tried to make this as simple as possible, particularly over this COVID period. There's two main methods that you can use. One that's been around for a while, and the other is

a booster to the first one. So the fixed rate method basically allows you to claim a lower amount, so 52 cents an hour for each hour worked at home. And what that looks at taking care of is, say, gas, electricity, or declining value of furniture as well, for items that you're using at home that are difficult to track.

Jacob:
If you use the increased rate of 80 cents an hour, which you can definitely for FY '21, when you come to file your return this year, you're actually saying, "Okay, I've been working at home a number of hours, whether that be on a full-time basis or a couple of days a week, and there's a lot of items I may not necessarily have taken care to track during the year, which is very common, but I want to use that increased rate of 80 cents per hour to give me still a substantial deduction at tax time for the cost of things that I've used at home." I think to break down which method is most effective for different groups, I would say the key point is that if you use what we call the shortcut method, which is the increased one of 80 cents an hour, that's really relevant, like we said, for people that haven't kept, say, a really detailed records around what they might be spending on.

Jacob:
It might be people that don't necessarily have a huge amount of spending, they've just been set up, they've got a work laptop that they've been provided with an hour just from home using that, which is completely fine as well. So there's no cap necessarily on how many hours you can claim for working from home. Obviously, you need to be realistic about it, but you can say whether that's 30, 40 hours, that's completely fine. The other thing that I would add to that is the fixed rate method, which is the lower one, may be relevant to you if you're paying large amounts that are relevant for work, say on phone and internet expenses or, say other items that you've bought specifically that you couldn't claim on the increased rate method. only because you want to just basically work out what gives you the best result.

Jacob:
So this is, once again, something you could chat to your tax agent about, but given that 80 cents an hour is definitely good and it's a substantial increase to the previous one. But in saying that, say you've got a couple of brands, the easiest way to think about it is a couple of grand at the end of the year that you have been spending on, whether it's mobile or internet. It may still work out that there's a better result in claiming the lower rate and claiming those as specific expenses in your return.

Owen:
Right. So you basically have a choice between 80 cents an hour flat and 52 cents an hour but then also being specific... Is that right? Yeah, 52 cents an hour, but also being specific around other things. Is that correct?

Jacob:
Exactly. Yeah. So, the 52 cents an hour is one that's been there for a while, and that looks at things that are difficult to track around, say gas and electricity or decline in furniture that you're

using at home. But on top of that, you can claim, say, phone and internet expenses and other things that you cannot claim if you use the 80 cents per hour.

Owen:
Right, right. That makes sense. Okay. So you could get more if you actually look at what's included in the shortcut method, you could actually get more if you go outside of that and you use the fixed rate method because you think, "No, actually, I did spend a lot on my mobile phone. I had some big expenses. I only used my internet for work," or whatever the case might be, I don't know. Yeah, that's where you should actually look into it. Cool. I like it, mate. So we're up to number eight. We're making good progress here. Number eight is the sharing economy. We've got a lot of people, I know you've worked with a lot of people that drive for Uber, they work on Airtasker, they do all these hobbies, not even hobbies, just extra side hustle, money that they get on the side from working whatever way that they can, basically to fill in the time they're going to be, instead of watching the footy, they might be out driving for Uber and making a few dollars anyway.

Owen:
How about for the sharing economy, this is a relatively new thing, a lot of people will be filing the tax returns for the first time, thinking about, "Well, what do I actually do and what can I do with this new money making machine that I have on the side?"

Jacob:
Definitely. And I'm such a big fan of the sharing economy as a whole. I think it's such a creative way for people, particularly during COVID as well, to build income on the side. So I think first and foremost, we see a number of different, I suppose, circumstance for people that are either driving for Uber and doing another business on the is a really common one that we see. We talked about GST a little earlier, but what is really important to know is, if you are doing rideshare, regardless of what platform that's on, you do need to be registered for GST, importantly. And if you do have any other business income that you are earning as well, if you're doing rideshare, then you need to be registered for GST for all of those businesses, basically.

Jacob:
So you have to be filing a business activity statement that looks at total income regardless of what percentage is just from the rideshare platform. So that's a big one that doesn't affect everyone, but it is quite specific to rideshare. The second point too is, and I want to emphasise the one around, say Airbnb and other rental platforms, is one, you do need to start, if you haven't already, you need to be disclosing this income as rental or whatever else you might be doing. I think it's becoming more of a hot topic with the ATO. There's a lot more information that is being shared from the platforms with them. So just being on top of what it is you need to be disclosing.

Jacob:
And basically the easiest way of doing so, because it's a bit of a nightmare for the ATO to ask the question a couple of years later, and for you to have to work through, if it's across a couple

of different platforms. So you might use, say, stays in Airbnb, reconcile that income and then to declare it at that point, you want to be doing it timely. One, to be paying any tax that's due so there's not penalties and interest on balances, but also just because it's so much easier from a record keeping perspective to stay up to date rather than being forced to backtrack. So I suppose there are two quick ones, but as I said, I love the sharing economy and I think it's not only here to stay, but it's going to get bigger and bigger as well.

Owen:
For sure it is. Yeah. And Airtasker, which is a company that's Australian born listed on the ASX not too long ago, follows Freelancer, which is another company that listed on the ASX quite a while ago. These businesses are becoming more and more popular, we even have things like hipages for tradies where they can pick up extra work. These sharing economy is basically about unlocking the supply. So whether that's a seat in a car or a room in a house for Airbnb, it's unlocking that supply and then meeting that with demand, and the platforms effectively facilitate that. But it is a source of income. If you're making money, you're making money.

Owen:
And you'd rather split some of your profit with the ATO than 100% of the loss on a property that's sitting vacant. So the next one, which is number nine, second from last, which is just around offsets, we talked about offsets last time. There have been some changes proposed to some offsets, but I'm guessing there's not much to go on here, Jacob, but I could be mistaken because offsets, if I'm not mistaken, automatically apply to people's tax returns?

Jacob:
Yeah. Overall, exactly. So I think the distinction that we've talked about in the last podcast around what an offset is in comparison to a general deduction is important. So an offset, you're getting the full value of the cashback. All I mean by that is if we're talking about the low and middle income tax offset, you might get up to a bit over a grand back at tax time, which is awesome. As we said, you don't need to do anything specific, the ATO, when they're putting together your notice of assessment, we look at how much income you've earned for the year and whether or not it's relevant, and we'll boost your refund with that offset, if it is relevant, which is cool.

Jacob:
In comparison, deductions are as we said, just helping to reduce your taxable income, and therefore, you're only getting, say, the tax rate you're exposed. All I mean by that is whether it's say, you're seeing it at the 37% tax rate, you might for every dollar you spend, get a chunk of money back as a deduction in tax time. That's the big one that I wanted to come back to because we still see so many questions on that. And the other one, in terms of say, franking credits and things, I think they're another basically a neat way to still, in terms of an offset, overall get cash back at tax time, making sure that you are correctly reporting, say frank dividends that you've had.

Jacob:

And the tax effect of those where you are getting the franking credit back effectively works the same way as an offset given that it's dollar for dollar. So any franking credits that you do have, make sure you're correctly reporting those in your return to get full benefits too is super important.

Owen:
The franking credits piece is something that always confuses a lot of people, but basically, the tax is paid on your behalf by the companies that you've invested in if they're eligible companies. And if you're an eligible shareholder, being an Australian resident and holding the shares for a certain amount of time, these could be super, super generous. There's no, ifs, buts, maybes about it. If you are someone who is looking for income from your investments, franking credits are kind of this strange concoction in Australia, imputation credits, I think there's only two countries in the world that offer imputation, AKA franking credits.

Owen:
And this is something that goes against your tax file number. And if you've set up your share registry or your holdings correctly, you should be able to see these when you file or you should at least make sure that they're on there because they're super important. They boost your taxable income or your assessable income, and so make sure that it's on there and you're not missing out. Jacob now, there's a bit of a mystery for number 10. I just said to you when we were planning for this episode, I just said anything else. So anything goes for number 10, tax time tips, this 10th bucket. So what would be under anything else?

Owen:
Is there anything else you can think of that would help our listeners understand what they can do at tax time?

Jacob:
Yeah. My biggest one, and sorry if this is a bit of a boring one, I think it's just so important is to not think of tax time just at tax time, if that makes sense. I think that is such a common, whether it's Aussies in general or just people the way they are, but they come to tax time and they think, "Okay, what's relevant to me?" And they work backwards from there to make sure whether it's looking at money they spend during the year to come up with their deductions. They're looking at trying to reconcile income that they may have had on the side that they know they need to declare, but they haven't really been keeping track of, they get to tax time and all of a sudden whether or not it's a mad rush or it's just a need to get a return in, it's working through that information then.

Jacob:
My biggest tip is to try as much as you can to be doing that during the year. One, it makes sure, I suppose the biggest one is that you're not missing out on any relevant deductions because you've just forgotten or you haven't got today records. And then the other one is in terms of all your additional filings that you might have, say, as a small business, as we chatted about, it's a lot easier to be doing those timely rather than getting to tax time, going to see a tax agent and

working backwards from there. So think about tax time, whether or not that's a couple of times during the year, maybe I'm just a tax man and I'm super keen and thinking about it more than I probably should. That's my biggest tip.

Jacob:
The other one is, and I know we've chatted about this before all there, but just be really aware of conversations that you might have with a maid at a bar, or even at the pub around, say structures, whether that's a self-managed super fund or whether you've both got similar businesses, but he's set up a different way to yours and you're thinking through, "Okay, well, is there something relevant to me based on that?" I think just be mindful that a lot of the structures that you do set up and the specific or otherwise have ongoing compliance that can be costly. So only setting up a structure where it's relevant, I think is really important.

Jacob:
Of course, there's a number of different things that may be relevant, so it may not just be tax, it might be asset protection and other things. So I think get the right advice there, of course, but don't be a cookie cutter and approach to say, "Oh, his business sounds like mine, I probably should follow that," and set up the same thing. I think we see that so commonly where people have the wrong structure and have then digital compliance because of that, or they haven't set up anything when they should have just because someone else that they were chatting to hadn't either, and they were both in the dark and they'd both just rolled on the basis of that.

Jacob:
So, get some specific knowledge and advice before you jump into a business that's relevant to you rather than just generally what you've heard of a mate.

Owen:
Yeah. Such an important thing. I know we're talking businesses and people with side hustles and all that sort of stuff, but I've heard of a lot of people getting into self-managed super funds, SMSFs, and it's one of those things where I guess at the end of the day, if you have an SMSF, I think a lot of people get into it and they think, "Uh, this is going to be tax advantage, it's going to help me invest better, this SMSF." But it really doesn't turn out well because sooner or later things get really complicated, things get expensive and you think, "Well, why don't I just go with an industry super fund or something like that."

Owen:
So definitely something for people to consider, but at the same time, make sure you get the right advice, and also understand the incentives of the people that are giving you the advice to get into a structure like that. Jacob, this has been 10 great, absolutely fantastic categories for people to think about at tax time. I think coming into this, I was expecting to have 10 tips, but I think you've given us three, six, nine, 11, 13, 15, about, let's say 25 different tips for listeners. So it's an awesome list. I know people can go and find out more at Airtax. I'll put all the links in the show notes. So you can visit Jacob's website with PwC there, Airtax by PwC.

Owen:
Again, thanks for joining me on the show, Jacob. I know you've got a lot of work to do around tax time with businesses and PAYG professionals. So stay tuned. Hopefully we'll have Jacob back on another episode of The Australian Finance Podcast. And as always, thanks for listening.

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.

Owen:
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