

THE YEAR END GUIDE 2020-21

Tax Planning Tips and Financial Reporting



While many of us have struggled due to COVID-19, the underlying principles remain the same, tax minimisation is still very important, and the pandemic has brought with it a huge range of variables and questions like...

- **How might you treat increasingly problematic debts?**
- **How should government stimulus payments be treated in your financial reports?**
- **And how is stock valued in these uncertain times?**

This hands-on 15-page guide answers these questions and will help you to:

- **Strategically work through year end issues to achieve a positive tax outcome.**
- **Ensure your financial reports are compliant, useful, and accurate.**
- **Appropriately treat the unique transactions brought about by the Government's economic response measures.**

QUICK TIPS & DEDUCTIONS OVERVIEW

Comment....

The fringe benefits tax (FBT) year ended on 31.3.2021. If you operate through a company or trust, carefully consider whether all FBT matters have been attended to and whether FBT return needs to be lodged. The most common fringe benefit supplied to staff is a motor vehicle benefit. In a small business audit, the two main areas of ATO focus are fringe benefits and Division 7A loans – see below.

Also carefully consider the effect COVID-19 has had on the calculation of the taxable fringe benefits, in particular motor vehicle and car parking fringe benefits. Carefully consider what has actually transpired over the year and don't pay any more FBT than you need to.

SMALL BUSINESS

Check Eligibility for Small Business Tax Regime

Small businesses (sole traders, partnerships, companies, and/or trusts with a turnover of less than \$10 million) may be eligible for a range of tax benefits including immediate write-off assets costing less than \$150,000 a 26 per cent company tax rate, simplified depreciation, capital gains tax concessions (turnover less than \$2 million) and accounting on a cash basis.

Also, see the instant asset write-off below.

Review Salary Sacrifice Arrangements

Employees can consider salary sacrifice arrangements under which their gross salary may be foregone to obtain either packaged car for fringe benefits tax (FBT) purposes, or they can make additional superannuation contributions.

We note that the option for employees to make tax-deductible superannuation contributions themselves became law on 29.11.2016 and took effect from 1.7.2017.

Make Trust Resolutions By 30 June

Trustees of discretionary trusts are required to make and document resolutions on how trust income should be distributed to beneficiaries for the 2020-2021 financial year by 30 June.

In the event, a valid distribution is not made then a default beneficiary may be assessable. If there are no default beneficiaries, then the trustee will be assessable at the highest marginal rate.

Seeking Professional Advice When Starting A Business

Professional expenses associated with starting a new business, such as legal and accounting fees, are deductible in the year those expenses are incurred rather than deducted over a five-year period as was the case prior to 1.7.2015.

Small Business Restructure Rollover Relief

Since 1.7.2016, small businesses have been able to change the legal structure of their business without incurring any income tax liability when active assets are transferred from one entity to another. This rollover applies to active assets and depreciating assets used or held ready for use, in the course of carrying on a business. Seek professional advice.

Stream Trust Capital Gains and Franked Dividends

Trustees of discretionary trusts may be able to stream capital gains and franked dividends to different beneficiaries if the trust deed allows the trustee to make a beneficiary “specifically entitled” to those amounts, the trustee must document this resolution before 30 June and the beneficiary receives or is entitled to receive an amount equal to the net financial benefit of that gain or dividend.

It may be necessary to make a family trust election for this to be effective.

Private Company Loans

Income Tax law can potentially treat a payment or loan by a private company to a shareholder or an associate as an unfranked deemed dividend unless an exemption applies.

The most common exemption is to enter into a written loan agreement requiring minimum interest and principal repayments over a specified loan term, which may be seven or 25 years depending on whether or not the loan is secured.

Prior to 30 June, you should carefully review such debit loans on the company's balance sheet.

Prevent Deemed Dividends in Respect of Unpaid Trust Distributions

An unpaid distribution owed by a trust to a related private company beneficiary that arises from 1.7.2017 will be treated as a loan by the company if the trustee and the company are controlled by the same family group. In these circumstances, the associated trust may be taken to have derived a deemed dividend for the amount of the unpaid trust distribution in 2019-2020 and prior.

However, a deemed dividend may be prevented if the unpaid distribution is paid out, or a complying loan agreement is entered into before the company's 2020-2021 income tax return needs to be lodged. Alternatively, a deemed dividend will not arise if the amount is held in an eligible sub-trust arrangement for the sole benefit of the private company, and other conditions are satisfied. These rules are complex and professional advice should be sought.

Write-Off Bad Debts

Businesses can only obtain income tax deductions for bad debts, if the debt still exists at the time, it is written off. Thus, if the debt is forgiven or compromised before it is written off as a bad debt in the accounts no deduction will be available. The debt must also be unrecoverable and written off in the accounts as bad prior to 30 June. The bad debt must have been previously brought to account as assessable income or lent in the ordinary course of carrying on a money-lending business.

Year End “Tax Effective” Investment Products

Proceed with caution and make sure you get independent professional advice.

INDIVIDUALS

In general, individual income is derived and deductions are incurred on a receipt's basis. The following suggestions may reduce your current tax year liability.

Prepayment of Deductible Expenses

An individual can claim a deduction for prepaid expenditure for a period not exceeding 12 months. The most common types for prepayment include:

- Income protection insurance
- Interest on investment loans
- Interest on share portfolio loans
- Membership and subscriptions

- Investment property expenses
- Corporate Body levies
- Insurance
- Repairs and maintenance
- Rates

Prior to year end, an individual should review the gains and losses on each asset within their investment portfolio. There may be opportunities to:

- Make sure assets have been held greater than 12 months before sale so the 50% discount can be applied to the gross capital gain – remember this is from “contract” to “contract”... not settlement.
- Realise capital losses to offset any capital gains that were made earlier in the income year.
- Defer realisation of capital gains until July.

Salary Packaging Arrangements

An effective salary sacrifice arrangement will reduce an individual’s marginal rate of tax.

The contractual arrangements should be documented or amended before year end as an individual cannot make a retrospective salary sacrifice arrangement for income already earned. A typical salary sacrifice arrangement may include the following components:

- Motor vehicle expense
- Additional superannuation contributions
- School fees

The top marginal tax rate applied on income in excess of \$180,000. With the “mark-up” factors, fringe benefits tax effectively applies the top marginal rate regardless of your income. However, for taxpayers not on the top marginal rate it is still possible to take advantage of FBT concessions.

Ongoing Tax Planning

Kindly note, there is no tax deduction for non-concessional contributions.

2021 Contributions Caps:

- Concessional contributions (employer contributions) \$25,000.
- Non-concessional contributions (personal contributions) \$100,000 or 3-year limit of \$300,000.
- Again, if you want to contribute more than \$100,000 in non-concessional contributions contact your accountant as this involves a 3-year average and you need to be certain you are eligible.

Salary Sacrifice Bonus into Superannuation

You may be able to optimise your tax position by salary sacrificing any prospective end-of-year bonus into super. Seek advice to ensure it is tax effective and that the contributions caps are not breached.

Superannuation – Income

Individuals aged over 60 and retired are generally not taxed on any payments from a superannuation fund. Individuals aged between 55 and 60 will generally be taxed concessional.

Superannuation – Rebate

A rebate up to \$540 is available for superannuation contributions made during the 2020 year for your spouse where your spouse's income is less than \$37,000 p.a. (this rebate reduces for income amounts up to \$40,000 p.a.).

Superannuation – Government Co-Contributions

The maximum co-contribution amount that you received is \$500, based on an after-tax contribution of \$1,000 (i.e., for every \$1 contribution made, the government contributes \$0.50). This is reduced by 3.33 cents for each \$1 of income over \$39,837 p.a. up to \$54,837 p.a. As there are also other qualifying criteria, you should contact your accountant if you wish to access this benefit in 2021.

Eligibility for Super Concessional Contributions

The 2020-2021 financial year is the second year when carry forward provisions come into effect, where you can carry forward unused contributions for five consecutive years.

To be eligible, your Total Superannuation Balance (TSB) must be less than \$500,000 at 30 June of the previous year. This is assessed in June of the prior year for each year in the rolling five-year period in which you intend to use the unused cap.

This strategy can be used for taxpayers expecting to have higher taxable income in an income year and would like to reduce the tax liability they have to pay, whether it's for work bonuses, large capital gains, retirement payouts, or large trust distributions.

Individuals aged 65 to 74 and who meet the work test (and TSB test) will also be eligible to access the catch-up concessional contributions.

Transition to Retirement Income Streams

If you are 55 or older at 30 June 2021, you may be eligible to commence a "Transition to retirement" pension. Benefits may include:

- Receiving pension income while still working.
- Ability to salary sacrifice to superannuation to access lower tax rates; and
- Concessional tax treatment within your super fund.

Note that up to 30.6.2017, the income from assets supporting a transition to retirement income stream was tax-exempt. Since 1.7.2017 this exemption no longer applies.

Medicare Levy Surcharge (MLS) and Private Health Insurance Rebate (PHIR)

The threshold for the imposition of the MLS (If not covered by private hospital insurance) are broadly as follows:

- Singles (do dependants) - \$90,000 pa; and
- Families - \$180,000 pa (plus \$,500 for each dependant child after the first)

There are a number of income amounts such as reportable fringe benefits, reportable superannuation contributions, and investment losses counted in calculating these thresholds.

Further, there is a "tiered" system for calculating MLS in the 2021 income year. The rate of the rebate will be between 1% and 1.5% depending on the extent to which income exceeds the relevant threshold.

In addition, PHIR is also means-tested in the 2021 income year under a "tiered" system. The rate of the rebate will be between 0% and 30% depending on income levels. This means some taxpayers who have claimed a full 30% rebate from their health insurance provider on their premiums will have an additional liability upon lodgement of their return.

ATO Recovery from Higher Education Loan Program and Trade Support Loan Debt

The Higher Education Loan Program (HELP) and Trade Support Loan (TSL) repayment rules to debtors who reside overseas have been extended by assessing their repayment obligations on their worldwide income. Repayment obligations commenced from July 2017.

Since January 2016, HELP and TSL debtors who are going overseas for more than 6 months were required to register with the ATO. Debtors already living overseas are expected to register.

ATO Data Matching

The ATO's extensive data matching capabilities are based on the information it receives from various sources including banks, share registers, employers, government agencies, and via its network of global information exchange agreements.

In terms of focus areas for compliance activities, the ATO continues to closely monitor:

- Claims for work-related expenses that are unusually high relatively close to others across comparable industries and occupations.
- Excessive rental property expenses.
- Non-commercial rental income received for holiday homes.
- Interest deductions claimed for the private proportions of loans; and
- People who have registered for GST but are not actively carrying on a business.

In 2021 an area of ATO focus is contractors not declaring income detectable under the taxable payments reporting system (TPRS).

INCUR EXPENSES BEFORE YEAR END

Expenses that are incurred before year end can reduce taxable income. Consider forthcoming liabilities and the value in incurring them before year end.

If you have rental property, consider whether you are maximising claims for capital works deductions on the property. A report from a quantity surveyor or suitably qualified specialist will maximise your entitlements.

Pay income protection insurance premiums before year end.

Motor Vehicle Expenses

There are now only two methods that can be used to claim a deduction for motor vehicle expenses.

There are:

- The cents per km method (for up to 5,000 business kilometres travelled); and
- The logbook method (logbook kept over 12 weeks and updated every 5 years)

For the year ended 30 June 2021, the single rate of deduction determined by the Commissioner is 72 cents per kilometre.

Detailed records assist in maximising deductions.

Zone Tax Offset

Since 1 July 2015, the zone tax offset has been limited to those taxpayers whose usual place of residence is within the designated zones. The zone tax offset is a concessional tax offset available to individuals against their income tax liability in recognition of the isolation, extreme climate, and high cost of living associated with living in designated zones.

This means “fly-in-fly-out” and “drive-in-drive-out” employees, whose usual place of residence is located outside of the zone, are ineligible to claim the zone tax offset for the 2016 income year and later income years.

Claiming Travel Allowance Deductions

An audit focus by the ATO continues on travel allowance expenses being claimed by individual taxpayers.

If you intend to use exception for retaining substantiation or these claims the following must apply:

- You must be receiving a bona fide travel allowance from your employer.
- You must be working away from home (on overnight stays) in the course of performing employment duties.
- You must calculate the claim correctly for your salary level and location of work; and
- You must be able to show that you are incurring travel expenses.

OTHER BUSINESS DEDUCTIONS

Defer Income

- Cash or accruals reporting – recognition of income on a receipt’s basis will generally defer the point of derivation.
- Review service contracts – do the terms of the contract mean income can be recognised periodically when the services are performed?

Bad Debts

Write off bad debts in the books of accounts prior to 30 June 2021.

Bonuses

Ensure all bonuses are determined and properly documented before year end.

Depreciation

- Scrap obsolete items of plant and equipment.
- Utilise depreciation pools to their full extent; and
- For SBEs (see above) consider taking advantage of the immediate write-off of up to \$150,000 for each individual asset acquired after 12.3.2020 until 30.6.2021.

Note that from 12.3.2020, eligibility has been expanded to cover businesses with an aggregated turnover of less than \$500 million (up from \$50 million).

From 7.30 pm AEDT on 6.10.2020 until 30.6.2022, temporary full expensing allows a deduction for:

- The business portion of the cost of new eligible depreciation assets for businesses with an aggregated turnover under \$5 billion or for corporate tax entities that satisfy the alternative test.
- The business portion of the cost of eligible second-hand assets for businesses with an aggregated turnover under \$50 million.

- The balance of a small business pool at end of each income year in this period for businesses with an aggregated turnover under \$10 million.

Temporary full expensing is not subject to the \$150k limit.

Trading Stocks

Consider these may be obsolete stock to write off and note closing stock can be valued at year end at the lesser of cost, market value, or the replacement value.

Generally, an entity must perform a stock take to determine the physical quantity and value of each item at year end.

Prepayment of Expenses

In some circumstances, small businesses (with a turnover of less than \$10 million) should consider prepaying expenses prior to 30 June 2021. A tax deduction can be brought forward into this financial year for expenses like insurance premiums, subscriptions and memberships, travel advertising, and interest. A deduction for prepaid expenses will generally be allowed where the payment is made before 30 June 2021 for services to be rendered within a 12-month period.

COVID 19 IMPACTED YEAR END TAX PLANNING

HOW TO CLAIM TEMPORARY FULL EXPENSING AND LOSS CARRY BACK THIS TAX TIME

Temporary full expensing and loss carry back are two JobMaker Plan temporary measures you may be eligible to claim for your business in your 2020-21 tax return.

To claim, or opt-out of, temporary full expensing or claim loss carry back you will need to complete additional labels in your tax return.

Temporary full expensing

You will need to include:

- whether you are choosing to opt-out of temporary full expensing for some, or all of, your eligible assets
- the number of assets you are claiming or opting out for
- the value of the assets (if applicable)
- the total amount of your temporary full expensing deduction
- whether you are using the alternative income test (corporate entities)
- information about your aggregated turnover.

Loss Carry Back

Eligible corporate entities (companies, corporate limited partnership, or public trading trust) will need to provide the information to make their choice to carry back losses, confirm eligibility, and calculate the refundable tax offset being claimed.

This includes information such as:

- your opening and closing franking account balance
- your aggregated turnover for each loss year
- the amounts of your tax losses that you are carrying back.

You can start preparing early by reviewing:

- the information you will need to determine your aggregated turnover
- your franking account.

The ATO website has information about how to check your eligibility and complete your claims.

For further information on the Instant Asset Write-Off, please refer to our analysis of the Federal Budget.

FAMILY ASSISTANCE PAYMENTS

If you receive Child Care Subsidy and Family Tax Benefit payments from Services Australia, you and your partner must lodge their 2019–20 Individual tax returns by 30 June 2021. Lodgment deferrals with the ATO do not alter this requirement.

If you were entitled to Family Tax Benefit but did not receive any payments in the 2019–20 financial year, you will also need to lodge a lump sum claim with Services Australia by 30 June 2021.

Services Australia needs your income details to balance payments for Child Care Subsidy and Family Tax Benefit.

If tax return lodgment is not made by 30 June 2021:

- those receiving Child Care Subsidy may:
 - lose their ongoing entitlement
 - receive a debt from Services Australia and have to repay the amount received in the 2019–20 financial year
- those receiving Family Tax Benefit may:
 - miss out on additional payments
 - receive a debt from Services Australia and have to repay the amount received for the 2019–20 financial year
 - have their fortnightly payments stopped.

If applicable, you can notify the ATO if lodgment is not required. The ATO can then confirm with Services Australia that you are not required to lodge. You can also do this using their Centrelink online service or Express Plus mobile app.

Services Australia can assist those who have special circumstances preventing them or their partner from lodging before the deadline.

The takeout is that it is necessary to move quickly to ensure your entitlement to these benefits.

COMPANY TAX RATES

Could you take advantage of the progressive drop in company tax rates to conserve cash flow and see your business through the current economic downturn?

From 1 July 2020, the corporate tax rate has changed from 27.5% to 26% for certain companies that are part of a group with a turnover of less than \$50m (as shown in the table below).

Income year	Aggregated turnover threshold	The tax rate for base rate entities under the threshold	The tax rate for all other companies
2018–19 to 2019–20	\$50m	27.5%	30.0%
2020–21	\$50m	26.0%	30.0%
2021–22 and onwards	\$50m	25.0%	30.0%

Note: The rate at which a dividend is franked and the company's income tax rate for the year, are determined independently of each other. However, assuming the 'group' has an aggregated turnover of less than \$50 million, the mix of income the company has this year will impact the company tax rate this year, and the franking rate next year.

If the company has mostly 'passive' income this year:

- its tax rate this year will be 30%; and
- its franking rate next year will be 30%.

If the company has sufficient 'active' income (business income) this year:

- its tax rate will be 26% for the 2020–21 income year. 25% from the **2021–22** income year onwards.
- its franking rate is 26% for the 2020–21 income year and 25% for the **2021–22** income year.

TRUST DISTRIBUTIONS

Are you or your trust beneficiaries among the many Australians that have seen a change to their circumstances because of the pandemic? If so, it may have a flow-on effect on the tax planning for your trusts.

- Carefully consider which beneficiaries should receive distributions from your trust this year and how much those distributions should be. While the tax effectiveness of the distributions is an important consideration, broader aspects such as asset protection and the impact on other payments a beneficiary may be receiving should not be overlooked. For example, a beneficiary receiving JobSeeker payments may lose their entitlement to that payment depending on the amount of trust distributions they receive this year.
- Draft your trust resolution to appropriately reflect the distributions for this year. And remember that most trust distribution decisions need to be made by 30 June.

RESIDENCY STATUS

COVID-19 has forced many countries to impose both local movement restrictions and international travel restrictions. If you or your employees are working in a jurisdiction that is different from the norm, it could impact the tax residency for the individuals and any companies they are involved with.

Individual Residency Status

An individual's residency status may unexpectedly come into question if:

- An individual is forced to stay in a country longer than initially expected; or
- An individual is forced to delay their move to another country; or
- An individual is forced to return to their original country unexpectedly.

If you or any of your employees fit into one of the situations outlined above, consider both the Australian tax residency impact and the position of overseas regulatory bodies (given that different countries have different tax residency tests).

Corporate Residency Status

Under the Australian tax law, a foreign company may be treated as an Australian tax resident where its central management and control are exercised in Australia. Where a foreign company has Australian directors, part of the company's corporate governance strategy may involve holding board meetings overseas to ensure the central management and control of the company is not "in Australia".

As a result of the COVID-19 travel restrictions, directors of the foreign company may need to temporarily hold or attend board meetings whilst they are physically located in Australia.

The ATO has indicated that if the only reason a foreign company's directors are attending board meetings in Australia is the COVID-19 travel restrictions imposed by the company or a government, the ATO will generally not treat the company as an Australian tax resident.

Note: If COVID-19 has led to a temporary change in the location of where a company is making its key decisions, which could, in turn, impact its tax residency, make sure that sufficient and appropriate records are maintained to explain why the change is only temporary and is because of COVID-19.

PRIVATE COMPANY LOANS & DIVISION 7A

The economic impacts of the pandemic may have led to you borrowing funds from your private company or may have impacted your ability to repay loans from your company. This may inadvertently lead to adverse tax impacts under Division 7A (the section of the Tax Act that contains provisions aimed at preventing private company owners from accessing company profits without paying tax on those amounts).

- Ensure you understand how Division 7A might impact your interactions with your private company, especially loans from the company or your use of company assets.
- Where you have problems meeting your minimum loan repayments to your company, notify your tax advisor early, as you may need to apply to the ATO for discretion to ensure adverse tax implications are not triggered.

REVENUE RECOGNITION

How and when you account for your revenue can have a substantial impact on your tax planning – particularly in the current climate when some debtors may be slower in paying their invoices.

There are two broad methods of recognising your revenue; on a cash basis (when you receive payment) and on an accrual's basis (generally when an invoice is raised). The timing of when an amount is taxable can therefore be quite different depending on which method is applied by your business.

Considerations from a tax planning perspective include:

- Determine what period your income/revenue will be taxable in (this could be in a different period to when it is recorded for accounting purposes).
- Different types of income may be taxable in different periods (for example, even though your business operates on an accruals basis and therefore business income is generally recorded when an invoice is raised, investment returns may not be taxable until that investment income is received).
- Assess whether you can legally defer the recognition of income to the next financial year.

Note: The pandemic may have had a significant impact on how revenue is recognised in your financial reporting.

FOREIGN CURRENCY EXCHANGE GAINS AND LOSSES

Recent uncertainty has led to greater fluctuation in many currencies which can have a significant impact on your tax planning. Foreign exchange gains and losses will often only be assessable or deductible for tax purposes once those gains or losses have been realised. However, this is not always the case, and some unrealised gains may also be recognised for tax purposes.

Note: Identify what types of foreign currency gains/losses you are likely to make this year and when they are assessable for tax purposes.

WORKING FROM HOME DEDUCTIONS

Have you or your employees been working from home due to the recent restrictions? To make things easier, the ATO has introduced a temporary Shortcut Method for calculating the tax deduction for home office running expenses for individuals.

The table below summarises the home office expenses that individuals can and cannot claim using the Shortcut Method as well as the existing Fixed Rate Method and Actual Cost Method:

	Fixed-rate method	Actual cost method	Short cut Method
Heating, cooling, cleaning, and decline in value of office furniture	52 cents per work hour	Work-related portion of actual costs	80 cents per work hour
Phone and internet expenses	Work-related portion of actual costs	Work-related portion of actual costs	Included in the 80 cents per work hour
Decline in value of equipment and furniture	Work-related portion of actual costs	Work-related portion of actual costs	Included in the 80 cents per work hour
Occupancy expenses	No	No	No

HOME OFFICE EXPENSES... (Cont.)

For many of us, this will be the second tax year that will involve larger tax deductions for home office expenses due to COVID-19. The ATO has advised that the temporary shortcut method is again available to those claiming working from home deductions this year.

The temporary shortcut method was created at the height of the pandemic last year to respond to the sudden influx of makeshift home workspaces.

While many have shifted back to the office, many of us have opted to continue working from home at least one day a week.

The working from home shortcut method allows claims at the all-inclusive rate of 80 cents per hour, rather than needing to do complex calculations for specific items.

According to the ATO:

- The shortcut method is straightforward; just multiply the hours worked at home by 80 cents.
- The only proof you need is a record of the number of hours you have worked from home, such as a timesheet.

- The temporary shortcut method can be claimed by multiple people living under the same roof and, unlike existing methods, does not require a dedicated work area.
- The shortcut is all-inclusive. You cannot claim the shortcut and then claim for individual expenses such as telephone and internet costs and the decline in value of new office furniture or a laptop.
- Taxpayers can still claim under the existing arrangements if they choose.

For those who chose an existing method, the ATO encourages taxpayers to do their research and keep good records. Keeping track of each individual expense and calculating the work-related use of each one can be fiddly so be organised. If in doubt, seek guidance and talk to us.

Top 4 no-go expenses

If you chose to claim your working from home expenses through the fixed-rate or actual cost methods, remember you still cannot claim:

- Personal expenses like coffee, tea, and toilet paper. While they might normally be supplied by your employer, they still are not directly related to earning your income.
- Expenses related to your child's education, such as online learning courses or laptops.
- large expenses up-front. Any asset that costs over \$300 (either in total or per item), such as a computer, cannot be claimed immediately. Instead, these claims should be spread out over a number of years.
- Employees generally cannot claim occupancy expenses such as rent, mortgage interest, property insurance, land taxes, and rates. Working from home does not mean your home is a place of business for tax purposes. If you claim occupancy expenses, you may have to pay capital gains tax when you sell your home, even if it is your main residence.

Three different methods for 2020–21

You can choose one of three ways to calculate your additional running expenses for this tax time:

- claim a rate of 80 cents per work hour at home for all your working from home expenses.
- claim a rate of 52 cents per work hour at home for the heating, cooling, lighting, and cleaning of your dedicated work area and the decline in value of office furniture and furnishings. Then calculate the work-related portion of your telephone and internet expenses, computer consumables, stationery, and the decline in value of a computer, laptop, or similar device.
- claim the actual work-related portion of all your running expenses, which needs to be calculated on a reasonable basis.

Remember, to claim any work-related expense, you must have spent the money yourself and not been reimbursed, the expense must be directly related to earning income (not a private expense), and you must have kept any necessary records (a receipt is best).

FRINGE BENEFITS TAX

Travel restrictions, mandatory workplace closures, and limitations on employee and client entertainment may have had a significant impact on how you calculate your Fringe Benefits Tax (FBT) liability. Some businesses may see a notable decline in their FBT obligations, while others may have a significant increase in FBT payable.

While the FBT year runs from 1 April to 31 March, you should review your FBT calculations and methodologies as part of your year end tax planning, because there may need to be major changes this year.

In reviewing your FBT, some of the aspects you should consider include:

- Cars and utes – Are company vehicles being used more, less, or differently from their traditional usage patterns? Are logbooks still valid because the usage patterns have changed? The use of some vehicles may not have previously resulted in an FBT liability because the private use of the vehicle was considered “minor, infrequent and irregular”, is this still the case?
- Entertainment – with the possible reduction in entertainment expenditure during the current FBT year, you may wish to consider whether it is worthwhile and administratively possible to keep more detailed records of entertainment benefits, to allow a greater choice of which method to use to calculate fringe benefits tax payable on entertainment.

RESEARCH & DEVELOPMENT TAX INCENTIVE

Has the pandemic resulted in new innovations for your business? If so, you may be eligible for the Research and Development (R&D) Tax Incentive.

If you plan to claim the R&D Tax Incentive, it is important to consider how fluctuations in income and one-off expenses may impact your income and therefore your eligibility.

- Unique transactions – payments from both the JobKeeper package and the \$100,000 Cashflow Boost may reduce the amount of eligible R&D expenditure which could have a significant impact on your cash flow forecasts.
- Ensure that any expenditure incurred to associates of the company, such as founders' salaries, are paid during the income year to qualify for the R&D tax incentive.
- To include superannuation expenses in your R&D tax incentive claim, ensure they are paid up to 30 June.
- Assets written off under the small business entity provisions will not qualify for the R&D tax incentive, so you should consider the appropriate depreciation rates to apply to various assets.
- Expenditure that is eligible for the R&D tax offset is not tax-deductible. You should consider other tax planning measures outlined in this document, such as writing off bad debts, trading stock valuation, revenue recognition, etc.

BAD DEBTS

Have you experienced an increase in irrecoverable debts in recent weeks? You are not alone.

All outstanding debtors should be reviewed prior to 30 June 2021 to determine the likelihood of recovering the debt. A tax deduction can be claimed for those determined to be genuinely unrecoverable. In the current environment, however, the ATO is likely to apply extra scrutiny to bad debts written off. The challenging economic conditions may not be considered enough to deem a debt 'bad'. Good record keeping will be key to showing that all reasonable efforts have been undertaken to recover debts.

To claim a tax deduction for bad debts in the current income year you should:

- **Ensure that the debts have previously been reported as assessable income. In practical terms, if you prepare accounts using the Small Business Tax Regime, you will not have previously reported Trade Debtors as assessable income.**
- Maintain sufficient evidence to demonstrate that the debts are genuinely not recoverable and that all reasonable efforts have been made to try and recover the debt.
- Write off debts as bad prior to 30 June (i.e., taxpayers have a record of the debts being written off during the income year).

Note: Bad debt will also have an impact on your financial reporting.

STOCK VALUATIONS

In the current climate, you may find that your stock has significantly changed in value or become obsolete. If this is the case, you may need to materially re-think your approach to valuing trading stock.

Traditional tax planning usually involves recognising the value of trading stock for tax purposes at either:

- Cost; or
- Market selling value; or
- Replacement value.

The tax laws allow for stock to be valued lower than the values otherwise calculated above if it is warranted because of obsolescence or any other special circumstances relating to that item (and the value you elect is reasonable). By adopting a lower trading stock value, you may reduce your assessable income for the year.

Thoroughly consider the tax treatment of your stock at year end:

- Do not just calculate the stock value at this year's end using the same methodology adopted last year. Consider if it is still appropriate to use that method. Consider whether a different method may be more appropriate or whether the stock value is impacted by obsolescence or special circumstances.
- Ensure any write-down in the value of stock is warranted and reasonable.
- Keep appropriate records to support how you calculated your stock value.

Changes to Stock valuations and the impairment of assets will also have an impact on your financial reporting.

GET ON TOP OF YOUR RECORD KEEPING

Are your records in good order? The rapid rate of change during the pandemic may have led to an ‘act now, document later’ attitude which is understandable, but may cause you headaches down the track. A return to ‘business as usual’ should include taking the time to review your record keeping and ensuring you hold sufficient appropriate documentation to support any positions you have adopted.

One of the areas where this will be particularly important is if you have accessed any Government incentives. While the ATO and other regulatory bodies have expressed certain leniency around honest mistakes, clear and detailed documentation to support decisions made will be vital in the event of a review or audit by the ATO or other body.

FINANCIAL REPORTING REVIEW

ACCOUNTING STANDARDS

The ability of certain for-profit entities to prepare special purpose financial reports will be removed for reporting periods beginning 1 July 2021. Transitional concessions are available for early transition from the special purpose to general-purpose reporting framework. 30 June 2020 represented the first available year end where these transitional concessions were available.

Regarding existing accounting standards, the true impact of the current environment is yet to be assessed. However, we anticipate that as the reporting season goes into full swing, we will begin to see which areas have been affected and which will require further disclosures. What is clear is that financial reports for this period will require far greater detail as both regulatory bodies and users of financial statements apply extra scrutiny.

GOING CONCERN ASSESSMENTS

There is no doubt that the pandemic has had a significant economic impact on a diverse range of businesses. But has it affected your ability to continue operating for the next 12 months? Or is this merely a temporary blip that can be overcome? Making a going concern assessment during times of uncertainty can be problematic – you need to consider a range of different factors including the economic situation, market volatility, and your unique circumstances. You may not be able to fall back on the usual assumptions made.

In assessing your ability to continue as a going concern you should:

- Undertake a sensitivity analysis taking into account best and worst-case scenarios.
- Update all forecasts taking into account current and foreseeable risk factors, these might include:
 - Economic and industry-specific factors
 - International factors including overseas operations, international supply chain, foreign exchange exposure and international transactions
 - Market changes including customer needs and competitor behaviour
 - Government support and/or legislative changes
 - Financing arrangements and access to capital.
- Review your ability to meet loan covenants.
- Assess your risk plans – can your business overcome another spike in the virus or a further economic downturn?

NORMALISING THE PROFIT & LOSS STATEMENT TO ACCOUNT FOR COVID-19

Under the current circumstances, you may wish to use alternative profit measures to ‘normalise’ your financial statements by removing the impact of COVID-19 on operations. However, the Australian Securities and Investments Commission has strongly advised against any such practices – they consider them to be misleading for the following reasons:

- “Normalised” accounts would be hypothetical and may not show the entity’s actual performance.
- It may not be possible to identify and quantify the actual impact of COVID-19 on the entity.
- The use of Non-IFRS measures should be unbiased and not be used to avoid presenting ‘bad news’ or poor performance results.

Any factors impacting performance related to COVID-19 can be discussed and disclosed in the directors’ report (if applicable) as well as the appropriate financial report section(s).

REVENUE RECOGNITION

Disruptions caused by COVID-19 could significantly impact your ability to meet performance obligations which could in turn have a significant impact on your revenue recognition.

As a general principle, revenue is recognised when an entity has earned its reward and compensation for goods provided and/or services rendered. However, disruptions to the supply chain, working conditions, and contractual agreements can all upset revenue recognition models.

BAD DEBTS

As we enter another recession, most businesses are looking to reserve cash. Therefore, we are seeing an increase in the number of bad or long-term debtors. From a financial reporting perspective, this can have a significant impact on how you recognise and report expected losses.

- Review your expected credit loss formula. How has the pandemic impacted your 12 months expected losses and lifetime expected losses?
- Allowing for extended credit terms or seeing your customers delay settlement of their business debts will impact your expected credit loss formula.
- Keep an eye on customers with payment plans, and their ability to repay now and into the future.

Note: The effect of COVID-19 on debtors will also have an impact on your tax planning.

ASSET VALUATIONS & IMPAIRMENT REVIEWS

While the pandemic has created real volatility in the share market, its impact on unlisted assets is difficult to estimate. Disruption to the economy together with fewer transactions taking place against which to benchmark makes calculating the true change in the value of your assets problematic. This in turn has an impact on how you might conduct impairment reviews this financial year.

In principle, the impairment of non-financial assets is based on best estimates. During times of uncertainty, these estimates need to take into account a wider range of risk factors.

When conducting your impairment reviews you should consider the following:

- Consider updating your discount rates to reflect the current environment.
- Look for alternative sources of benchmarking if comparable transactions are unavailable.
- Do you need to update your cash flow forecasts considering industry factors or your specific circumstances?
- Are additional disclosures required to outline specific sensitivities, risk factors, or assumptions made?
- Consider under what circumstances the impact of the pandemic may be deemed to be a "temporary blip rather than a "systemic" change and whether any such conclusion may require the support of external/third party assistance.

You may also need to consider the practical implications of conducting stocktakes occurring within a "remote" or socially distanced environment. Third-party providers may need to access your premises or conduct virtual inventory count processes. Specialised assessment in these circumstances will be required in good time.

DEFERRED TAX ASSETS ARISING FROM TAX LOSSES

If you have been running a profitable business, you may not have previously been in a position of having tax losses available for recognition as deferred tax assets. However, with more businesses making a loss, or shutting down areas of their business, we are seeing a great number of tax losses being generated that may be available for recognition. As a result, additional analysis may be required to ensure that these losses are accounted for appropriately.

If your balance sheet contains substantial deferred tax assets, relating to assessable or assessed tax losses, you should consider the following:

- A deferred tax asset can only be recognised to the extent that it will be probable that the entity will make future taxable income against which capitalised losses can be utilised, and therefore the accounting impacts listed under, Going Concern, will go hand in hand with your deferred tax asset assessment.
- Appropriate forecasts and budgets will be needed to support the additional recognition.

EMPLOYEE LEAVE PROVISIONS

Have you seen substantial changes to your workforce and working arrangements? Perhaps you have stood some employees down, or asked employees to reduce their working hours. Any changes in employment arrangements will have a knock-on effect on how you account for leave provisions on your balance sheet.

- Travel restrictions may mean fewer employees have taken annual or long service leave. Consequently, you may find your liabilities concerning leave provisions are higher this financial year. This may add extra pressure to your balance sheets during a difficult time.
- Review contracts and obtain expert advice if you have stood staff down. Whether they are entitled to accrue leave (and other entitlements such as superannuation) while stood down will depend on your unique situation and the details of your employment contracts.
- Accounting for termination benefits, in general, requires a detailed understanding of all provisions and circumstances. Legal disputes might arise and need to be considered.

Additionally, you should consider whether recognition criteria are appropriately met for any termination plans announced after the year's end. In which case the specific provisions of the subsequent events recognition criteria will have to be assessed.

DISCLOSURES AND EXTENSION ON LODGEMENTS

In this time of unprecedented uncertainty, you have likely relied on a wide range of valid assumptions in the preparation of your financial reports. As such, this financial year may require a greater number of disclosures than other years, to assist users of the reports to understand the underlying factors behind the information presented. Directors should ensure that a reasonable basis is included for each significant estimate and that the sources of estimation are clearly outlined. The information presented should be specific enough to show how assumptions may impact assets or liabilities.

- It is important to note that Directors will still be required to make Solvency Statements. However, the Federal Government has recently granted company directors, under certain circumstances, a six-month relief from any personal liability for trading while insolvent.
- Additional discourse may be required to provide detail around the impact of COVID-19. For example, the going concern impact and business outlook including the impact of government stimuli expected to be rolled back around September.
- ASIC is extending the deadline for both listed and unlisted entities to lodge financial reports under Chapters 2M and 7 of the Corporations Act by one month for certain balance dates, however, preliminary reporting obligations are still applicable and require appropriate planning.
- ASIC has adopted a "no action" position for AGMs of public companies with 31 December 2019 to 7 July 2020 year ends. ASIC will not act if an AGM is held up to seven months after year end.
- If you believe you are unable to lodge statements in time, act early to improve your chances of securing an extension.

We have seen several cases where extensions have been granted based on merit.

GOVERNMENT STIMULUS & OTHER RELIEF MEASURES

INSTANT ASSET WRITE-OFF

The Federal Government has increased the instant asset write-off threshold from \$30,000 to \$150,000 and expanded access to include businesses with an aggregated annual turnover of less than \$500m (up from \$50m).

The higher thresholds apply to depreciable assets acquired between 12 March 2020 to 31 December 2020 which are installed and ready for use in the same period.

The applicable thresholds to be eligible for the instant asset write-off in recent years are as follows:

Date asset acquired and first used or installed ready for use	Aggregated turnover	The threshold for instant asset write-off
1 July 2018 to 29 January 2019	Less than \$10 million	\$20,000
29 January 2019 to 2 April 2019	Less than \$10 million	\$25,000
2 April 2019 to 12 March 2020	Less than \$50 million	\$30,000
12 March 2020 to 31 December 2020	Less than \$500 million	\$150,000

Where the asset acquired is a car, the immediate deduction is capped at the car limit (\$57,581 for the year ended 30 June 2020, moving up to \$59,136 for 30 June 2021). The balance of the cost of the car is not deductible.

For businesses using the small business pool for depreciation, if the value of the pool falls below \$150,000 (before calculating the depreciation deduction) for an income year ending on or between 12 March 2020 and 31 December 2020, the pool balance can be immediately deducted.

- To be eligible for the write-off in this financial year, ensure that eligible assets have been bought and installed ready for use by 30 June 2021.
- Ensure that you have accurately assessed the value of the asset:
 - If you are registered for GST, the \$150,000 threshold is GST exclusive.
 - If you are not registered for GST, the \$150,000 threshold is GST inclusive.

Note: While the instant asset write-off will result in accelerated wear and tear for tax purposes, it will not necessarily result in accelerated depreciation for accounting purposes. Instead, the asset will generally be depreciated for accounting purposes over its useful life.

- Where there is a difference between the tax and accounting treatment of the asset, it could result in a deferred tax liability having to be recorded for accounting purposes.
- Specialised assistance might be required along with more sophisticated tracking of the "timing difference" between tax wear and tear and accounting depreciation over the coming financial years, as the variance will narrow over time.

ACCELERATED DEPRECIATION

If you do not qualify for the \$150,000 instant asset write-off, you may still be entitled to claim an accelerated 50% tax deduction for the cost of new depreciable assets purchased between 12 March 2020 and 30 June 2021.

Under this accelerated depreciation system, 50% of the total cost of the asset can be claimed as a deduction in the income year in which the asset is first installed and ready for use. The remaining cost of the asset can be deducted at normal rates, meaning that the first-year depreciation will be 50% of the cost plus the amount of depreciation at normal rates on the balance of the cost (i.e., on the remaining 50% of the cost).

- To be eligible for accelerated depreciation in this financial year, ensure that eligible assets have been bought and installed ready for use by 30 June 2021.

Note: While the accelerated depreciation will result in the asset being depreciated quicker for tax purposes, it will not necessarily result in an acceleration of depreciation for accounting purposes. Instead, the asset will generally be depreciated for accounting purposes over its useful life.

- Where there is a difference between the tax and accounting treatment of the asset, it could result in a deferred tax liability having to be recorded for accounting purposes.
- Specialised assistance might be required along with more sophisticated tracking of the "timing difference" between tax wear and tear and accounting depreciation over the coming financial years, as the variance will narrow over time.

RENT RELIEF & CONTRACTUAL OBLIGATIONS

If you are one of the many businesses that negotiated rental relief or a change to key contracts, you may need to pay close attention to how this relief is recorded in your financial statements and what tax impact it may have.

The type of rent relief your business receives will have a large bearing on the tax impact of the relief.

- If a particular amount of rent is no longer payable at all (i.e., the rent is reduced), then no tax deduction will be available for the amount no longer payable.
- If rent is merely deferred until a later period, it will be important to determine whether that means the tax deduction is also deferred until that later period.