

# client alert | explanatory memorandum

July 2020

**CURRENCY:**

This issue of **Client Alert** takes into account developments up to and including 22 June 2020.

## Tax time 2020 is here

### Don't jump the gun and lodge too early

Tax time 2020 is here, but it's likely to be anything but routine. Many individuals on reduced income or have increased deductions may be eager to lodge their income tax returns early to get their hands on a refund. However, the ATO has issued a warning against lodging too early, before all your income information becomes available. It's important to remember that employers have until the end of July to electronically finalise their employees' income statements, and the same timeframe applies for other information from banks, health funds and government agencies.

With so many different types of incomes and expenses affecting tax obligations this income year, the ATO is taking a range of different approaches to support taxpayers and the community through tax time. In addition to updating published information on its website, the ATO is encouraging taxpayers to search its online "ATO community" forum, which operates 24 hours a day and contains "ATO-endorsed" responses.

For most people, income statements have replaced payment summaries. So, instead of receiving a payment summary from each employer, the income statements will be finalised electronically and the information provided directly to the ATO. The income statement can be accessed through myGov and the information is automatically included in the tax return if you use myTax. Tax agents also have access to this information.

Although individuals may be eager to lodge as soon as possible, the ATO has warned against lodging too early (ie at the beginning of July), as much of the individual information on income may not be confirmed until later. For example, the income statements which show year-to-date salary and wages, PAYG withholding tax, and employer super contributions may not be finalised by employers until 31 July.

According to the ATO, it is important to wait until the income statement is finalised before lodging a tax return to avoid either delays in processing or a tax bill later on. The income statement will be marked "tax ready" on myGov if it is finalised. Other information from banks, health funds and government agencies is also expected to be ready by the end of July and will be automatically inserted into the tax return.

If you still choose to lodge early, the ATO advises carefully reviewing any information that is pre-filled so that you can confirm it is correct and that you wish to use it. Early lodgers will also be required to acknowledge that their employers may finalise their income statement with different amounts, meaning that the lodger may need to amend the tax return and additional tax may be payable.

### Tax return tips for individuals

With the great disruptors of the Australian bushfires and the global coronavirus (COVID-19) pandemic, and the associated government economic stimulus measures, there are some key tax-related matters for everyone to be aware of this year. These include the tax treatment of early access super, the use of the simplified method to claim work from home expenses, payments related to being stood down, and redundancy or termination payments. Taxpayers will need to be aware of these potential pitfalls to maximise their deductions.

The ATO has a range of approaches to support taxpayers through tax time 2020, especially where new circumstances mean people are receiving a different type of income or are able to claim new deductions. The ATO's Tax Time Essentials page ([www.ato.gov.au/taxessentials](http://www.ato.gov.au/taxessentials)) provides a one-stop-shop for the things that are a little different this year and how they impact tax returns.

Individuals accessing super early as a part of the COVID-19 early release scheme can rest assured that this money will not form a part of their assessable income. To date, 1.98 million people have withdrawn an average of \$7,475 from their super under the scheme.

Another key difference this year is the introduction of the optional simplified method for claiming work from home expense deductions. This method allows an individual to claim 80 cents for each hour they worked from home from 1 March 2020 to 30 June 2020, to cover all deductible expenses. However, people who were working from home before 1 March 2020 or have documented actual expenses that work out to be more than 80 cents per hour can still use the usual method to claim expenses related to working from home.

For people who were unable to work from home and had to take leave or were temporarily stood down, if their employer made any kind of payment, either regular or one-off, those amounts will need to be declared as wages and salary on the individual's tax return and tax will apply at the usual marginal rates. This applies regardless of whether the payments are funded by the government JobKeeper scheme.

If a person has been made redundant or had their employment terminated, any payment they receive may consist of a tax-free portion and a concessional tax portion which means that you could potentially pay less tax.

### ***Working from home expenses***

The ATO expects to see a substantial increase in people claiming deductions for working from home or for protective items required for work (eg gloves, face masks, sanitiser or anti-bacterial spray).

The ATO also expects to see reduced claims for laundry expenses and travel expenses this year as more people are working reduced hours. "If you aren't wearing your work uniform, you can't claim laundry expenses", Assistant Commissioner Karen Foat has said.

The ATO has already announced the temporary simplified method for claiming work from home expenses, meaning individuals have the ability to claim 80 cents per work hour between 1 March 2020 and 30 June 2020 (see Practical Compliance Guideline PCG 2020/3). This method is intended to cover all deductible expenses, and can be used by multiple taxpayers working from home in the same house.

Taxpayers claiming their work from home expenses using the simplified method should include the amount at the "other work-related expenses" label in their tax return and include "COVID – hourly rate" as the description.

If you use the shortcut method, all you need to do is keep a record of the hours you worked from home as evidence of your claim. But it is all-inclusive for the 1 March to 30 June period, meaning you can't also claim for any other work from home expenses incurred during that time. Of course, taxpayers can still choose to use one of the other existing methods to calculate and claim deductions for their work from home expenses for the COVID-19 period.

Of course, under the ordinary methods a taxpayer can claim electricity expenses associated with heating, cooling, lighting used for work, cleaning costs for a dedicated work area, phone and internet expenses, computer consumables (eg printer paper and ink), stationery, home office equipment (eg computer, printer and furniture), either at full cost or decline in value depending on the cost.

In most cases, if a person has purchased home office equipment to use exclusively for work, the ordinary method is likely to give them a bigger deduction.

For example, if you work a standard 37.5-hour week, the deduction you would get over the entire period 1 March 2020 to 30 June 2020 would be around \$730. However, if you've purchased a printer for \$299, a computer chair for \$299 and an extra screen for \$299, all of which are used exclusively for work, not counting your other deductions for electricity, internet, consumables and stationery, your potential deduction amount would already be \$897. Therefore, depending on your circumstances, the simplified method may not be the way to go.

Whichever method taxpayers end up choosing, they must keep records. For the simplified method, they will need to keep a record of the hours worked at home (ie timesheets or diary notes). For the ordinary method, they will need to keep a record of the number of hours worked from home along with clear records of the expenses.

### ***Protective clothing***

Another deduction that people might seek to claim due to COVID-19 is expenses for protective items required for their work. The ATO has said that taxpayers working in jobs that require physical contact or close proximity with customers or clients during COVID-19 measures can claim a deduction for items such as gloves, face masks, sanitiser or antibacterial spray if they have paid for the items themselves and not been reimbursed by an employer. This may apply for people in industries like healthcare, retail and hospitality.

### ***JobKeeper and JobSeeker income***

Taxpayers who have received JobKeeper payments from their employer don't need to do anything different to include those amounts in their tax return – the payments will be included as salary and wages and/or allowances in their regular income statement. Sole traders who have received the JobKeeper payment on behalf of their business will need to include the payments as assessable income for the business.

For taxpayers who have received JobSeeker, the ATO will load this information into their tax return at the Government Payments and Allowances label once it is ready. If lodging a return before this information is included in the return, the individual or their tax agent will need to include the amounts manually.

### **Stand-down payments**

If an employee has received a one-off or regular payment after being temporarily stood down due to COVID-19, those payments are taxable and should appear in their income statement and in their return.

Similarly, any received income such as income protection, sickness or accident insurance payments, redundancy payments and accrued leave payments need to be included.

### **Early access to super**

Any amounts withdrawn from superannuation under the COVID-19 condition of release (up to \$10,000 for 2019–2020) are tax-free and do not need to be declared in the person's tax return, the ATO has said.

#### **Example: barista receiving JobKeeper**

Ethan is an employee who works as a barista. After being financially impacted by COVID-19, the cafe Ethan works for enrolled to receive JobKeeper payments on his behalf.

The cafe continues operating as takeaway only and Ethan is given some hand sanitiser for use during his shifts. He also purchases a face mask, which he is not reimbursed for. When he completes his tax return, he claims the cost of the face mask, ensuring he keeps his receipt as proof of his purchase.

He also checks that his salary and wages and allowances on his income statement are up to date, including JobKeeper payments made to him by the cafe. The ATO says Ethan needs to confirm that his total salary and wages and any allowances are included in his tax return. Generally, this will be included in his return by the ATO by the end of July and will include JobKeeper payments.

#### **Example: IT contractor working from home**

Natalie is employed by a company that provides IT support. From time to time Natalie must drive her car from the office to the client's premises and assist them on site. Due to COVID-19, Natalie started working from home on 23 March 2020 and was only able to provide phone support to clients. Natalie purchased a new headset and stationery, as well as incurring additional phone and internet costs while working from home.

Natalie decides to claim all her working from home expenses using the new temporary rate of 80 cents per hour. She uses her time sheets to calculate the hours she worked from home between 23 March and 30 June 2020.

When she completes her tax return, Natalie makes sure she only claims a deduction for the car expenses she incurred when travelling from the office to the client's premises. As Natalie worked solely from home for approximately three months of the year, mostly supporting clients over the phone, the ATO would generally expect her claim for car expenses for 2019–2020 to be less than her claim for 2018–2019.

Source: [www.ato.gov.au/Media-centre/Media-releases/2020-has-been-difficult-but-your-tax-return-doesn-t-need-to-be/](http://www.ato.gov.au/Media-centre/Media-releases/2020-has-been-difficult-but-your-tax-return-doesn-t-need-to-be/).

## **Expanded instant asset write-off for businesses**

If a taxpayer has purchased assets for their business, they may be eligible to claim an immediate deduction under the instant asset write-off expansion. From 12 March to 30 June 2020 inclusive, the instant asset write-off threshold for each asset increased to \$150,000 (up from \$30,000) for business entities with aggregated annual turnover of less than \$500 million (up from \$50 million).

To get it right, remember:

- check if the business is eligible;
- both new and secondhand assets can be claimed, as long as each asset costs less than \$150,000;
- assets must be first used or installed ready for use between 12 March and 30 June 2020;
- a car limit applies for passenger vehicles;
- if the asset is for business and private use, only the business portion can be claimed;
- a business can claim a deduction for the balance of a small business pool if its value is less than \$150,000 at 30 June 2020 (before applying depreciation deductions); and
- different eligibility criteria and thresholds apply to assets first used or installed ready for use before 12 March 2020.

### **Car limit still applies**

The ATO has reminded taxpayers that the increased and expanded instant asset write-off is still subject to the car limit of \$57,581 for the 2019–2020 financial year. As businesses prepare for their end of financial year tax planning, the ATO said it is receiving questions about how the write-off applies to vehicles.

The write-off does not apply equally to all vehicles. The car cost limit of \$57,581 for the 2019–2020 financial year applies to passenger vehicles (except motorcycles or similar vehicles) designed to carry a load less than one tonne and fewer than nine passengers. Taxpayers cannot claim the excess cost of the car under any other depreciation rules. However, a taxpayer can claim less than the \$150,000 threshold for other vehicles (eg trucks and machinery). The car limit does not apply to vehicles fitted out for use by people with disability.

If a taxpayer uses the car for business and private use, only the business portion can be claimed. The deduction is also limited to the business portion of the car limit (if it applies to the vehicle). For example, if a taxpayer uses their car for 75% business use, the total that can be claimed is 75% of \$57,581 for 2019–2020.

If a taxpayer has ordered and paid for a car by 30 June 2020 but not received it by that time, the ATO says the taxpayer cannot claim the increased write-off. The taxpayer must have first used the car, or have had it delivered ready for use, between 12 March 2020 and 30 June 2020. Different eligibility criteria and thresholds also apply to assets first used, or installed ready for use, before 12 March 2020.

*Source: [www.ato.gov.au/Tax-professionals/Newsroom/Income-tax/Instant-asset-write-off-and-the-car-limit/](http://www.ato.gov.au/Tax-professionals/Newsroom/Income-tax/Instant-asset-write-off-and-the-car-limit/).*

## **Additional cash flow boost coming for businesses**

Businesses that received the initial government cash flow boosts as a part of the COVID-19 stimulus measures are in line for additional payments for the June to September quarter. Generally, the additional amount businesses will receive will be equal to the total amount that they initially received and will be split evenly between the lodged activity statements. However, if you've made adjustments or revised your activity statements after lodgment, the amount of additional cash flow boost payments you receive may be different.

If your business is one of many that received the initial cash flow boosts as a part of the government's COVID-19 economic stimulus measures, prepare for more help coming your way. When you lodge your monthly or quarterly activity statements for June to September 2020, your business will receive additional cash flow boosts.

The additional amount you receive will be equal to the total amount of initial cash flow boosts that you previously received and will be split evenly between your lodged activity statements. Therefore, quarterly payers will generally receive 50% of their total initial cash flow boost for each activity statement, while monthly payers will generally receive 25% of their total initial cash flow boost for each activity statement.

For example, if your business lodges activity statements quarterly and you received an initial cash flow boost of \$10,000, when you lodge your June to September 2020 quarterly activity statements your business will receive \$5,000 for the quarter ended June 2020 and \$5,000 for the quarter ended September 2020. Although, if your business lodges monthly activity statements, you will receive \$2,500 for each month of June, July, August and September 2020.

Beware, however, that if your business has revised activity statements after lodgment, it may affect the amount of cash flow boost received. You can check your statement of account through ATO online services for details on how your account may have been adjusted to work out how it will affect your cash flow boost payment.

Remember, if you have not made payments to employees subject to withholding, you need to report zero for PAYG withholding when lodging your activity statements to ensure that you receive the additional cash flow boost payments for June to September 2020. It is important that you do not cancel PAYG withholding registration until you have received the additional cash flow boosts.

If your business does not automatically receive the cash flow boost, it does not necessarily mean your business is not eligible – it may just mean the ATO requires additional information.

For example, to be eligible for the cash flow boost, your business needs to be a small to medium business with an annual turnover of less than \$50 million. However, the ATO has discretion to deem a business eligible if:

- it's a new business that hasn't previously lodged an income tax return because you started business on or after 1 July 2019; or
- you can demonstrate that you expect your business to be a small or medium business entity with a turnover of less than \$50 million in the 2019–2020 year even though your aggregate turnover for previous years was more than \$50 million.

To take advantage of the additional cash flow boost payments, make sure to lodge your activity statements by the due dates below.

- For quarterly lodgers, the due dates are:
  - 28 July 2020 for the April–June 2020 quarter; and
  - 28 October 2020 for the July–September 2020 quarter.

- For monthly lodgers, the due dates are:
  - 21 July 2020 for June 2020;
  - 21 August 2020 for July 2020;
  - 21 September 2020 for August 2020; and
  - 21 October 2020 for September 2020.

Source: [www.ato.gov.au/Tax-professionals/Newsroom/Your-practice/Preparing-for-additional-cash-flow-boosts/](http://www.ato.gov.au/Tax-professionals/Newsroom/Your-practice/Preparing-for-additional-cash-flow-boosts/).

## ATO scam calls may soon be a thing of the past

Last year, some 107,000 ATO impersonation scam calls were reported to the authorities. The real number is likely to be much higher, given that most of these type of calls go unreported. Scammers are increasingly using technological advances to appear more legitimate and nab unsuspecting victims.

One technique commonly used is “spoofing”, where the scammers use software to mislead the caller line identification (caller ID) technology on most mobile phones and modern fixed line phones. Rather than transmitting the actual, typically overseas, phone number the call is coming from, the software “overstamps” it with another phone number. Commonly, the numbers used are widely publicised, such as the legitimate numbers used by the ATO.

However, receiving scam calls purportedly from the ATO and other official departments may soon be a thing of the past, with the recent completion of a successful trial of software to block specific calls.

Tax refund and tax debt scams are particularly prevalent towards the end of October when most individual tax returns are due, but some could run year-round. In fact, just recently, the ATO has alerted the community to an SMS scam which claims that recipients are due to receive a tax refund and asks them to click on a legitimate-looking link. The ATO notes that it will never send an email or SMS asking people to access online services via a hyperlink.

Due to the prevalence of these scams and the large amount of money lost by individuals, Australian telcos, the ATO and the Australian Communications and Media Authority (ACMA) recently collaborated on a three-month trial of technology to block scam calls appearing to originate from legitimate ATO phone numbers. Under the Scam Technology Project, participating telcos used software to identify calls which had been “overstamped” with specified ATO phone numbers and blocked them.

According to the government, the trial has been “highly successful” in blocking spoof calls from specified ATO numbers. While this blocking technology will not stop scammers randomly ringing Australians pretending to be from the ATO, it will stop specific ATO numbers appearing in the caller ID on the recipient’s phone, making the scam seem less convincing.

If you receive a call from someone who says they are from a government department, such as the ATO, but you’re not sure whether the call is legitimate, the best course of action is to hang up and phone back on a widely publicised number from an official website or source.

The recent blocking trial is not the only initiative under the project. The industry peak body for the telecommunications sector, Communications Alliance, is also developing an industry code called Reducing Scam Calls, which will mandate steps telcos must take to identify, trace and block scam calls. In addition, the Alliance will create an information-sharing framework for telcos to work with regulators against phone scams.

Source: [www.acma.gov.au/scam-technology-project](http://www.acma.gov.au/scam-technology-project); [www.commsalliance.com.au/Activities/committees-and-groups/wc92](http://www.commsalliance.com.au/Activities/committees-and-groups/wc92).

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