client alert | explanatory memorandum

May 2025

CURRENCY:

This issue of **Client Alert** takes into account developments up to and including 14 April 2025.

Upskilling? You may be able to claim your self-education expenses

If you've thought about upskilling or undertaking professional development this year, you may be able to claim some of your self-education expenses in your 2024–2025 income tax return.

What are self-education expenses?

You incur self-education expenses when you:

- take courses at an educational institution (even if you don't gain a formal qualification);
- undertake training provided by an industry or professional organisation;
- attend work-related conferences or seminars; or
- do self-paced learning and study tours in Australia or overseas.

Are you eligible to claim?

Your self-education expenses need to have a sufficient connection to your current employment income in order to make a claim. This means that your study must either:

- maintain or improve the specific skills or knowledge you use *in your current role*; or
- be likely to result in increased income *in your current role*.

Keep in mind that sometimes only certain subjects or components of your study are sufficiently connected to your work – in these cases, you'll need to apportion your expenses.

The following scenarios can help you understand eligibility.

Enrolled nurse to registered nurse: eligible to claim

Declan has a Diploma of Nursing and is employed as an enrolled nurse. He is currently studying a Bachelor of Nursing to become a registered nurse. While Declan's current and future role both involve nursing, Declan's studies will maintain and improve his existing knowledge. Since his income will likely increase after completing the degree, Declan can claim his self-education expenses.

Teacher's aide to teacher: not eligible to claim

Teri is a teacher's aide at a primary school and is studying a Bachelor of Education to become a teacher. While Teri currently works alongside teachers, completing her degree and becoming a teacher would significantly change her work activities – she would effectively be changing jobs. As there isn't a sufficient connection between her current role and her studies, Teri can't claim her self-education expenses.

What you can claim

If you meet the eligibility criteria you may be able to claim a deduction for:

- tuition, course or seminar fees incurred in enrolling in a full fee paying place;
- general course expenses (eg stationery, internet usage);
- depreciation on assets like laptops;
- transport costs between home or work and your place of study;
- accommodation and meals when your course requires you be away from home for one or more nights; or
- interest on loans where you use the funds to pay for deductible self-education expenses.

It’s important to remember you can only claim a deduction for the portion of your expenses that are directly related to your self-education.For example, if you use assets for both study and private use, you’ll need to apportion the costs.

If you’re unsure whether your study plans make you eligible to make a claim at tax time, check in with your financial adviser or explore the resources available on the ATO website.

Source: www.ato.gov.au/individuals-and-families/income-deductions-offsets-and-records/deductions-you-can-claim/education-training-and-seminars/self-education-expenses

Beyond the booking: tax implications for short-term rentals of your home

In today's sharing economy, platforms like Airbnb have made it easier than ever to earn extra income by renting out a spare room or your entire home. While this can be financially rewarding, many Australians are unaware of the tax implications that come with these arrangements. Understanding your obligations can save you from unexpected tax bills and potential penalties down the track.

When you rent out all or part of your residential property through digital platforms, the ATO requires you to declare this income on your tax return. Keeping meticulous records of all rental income earned is essential, as is maintaining documentation of expenses you intend to claim as deductions. It's worth noting that most property rental arrangements don't constitute a business in the eyes of the ATO, even if you provide additional services like breakfast or cleaning.

One area where many property owners get caught out is capital gains tax (CGT). While your main residence is typically exempt from CGT, this exemption can be partially lost when you rent out portions of your home. The reduction in your exemption is calculated based on the floor area rented and the duration of the rental arrangement. This is a crucial consideration if you're thinking of selling your property in the future, as it could significantly impact your tax position. Interestingly, if you temporarily move out of your main residence to live elsewhere, you may still retain your full CGT exemption under certain circumstances.

When it comes to deductions, you can claim a portion of expenses related to the rented space, including council rates, loan interest, utilities, property insurance and cleaning costs. The deductible amount depends on both the percentage of the property being rented and the duration of the rental period throughout the financial year. Platform fees or commissions charged by services like Airbnb are often 100% deductible, providing some relief against your rental income.

Record-keeping becomes paramount in this scenario. You'll need to maintain statements from rental platforms showing your income, along with receipts for any expenses you plan to claim. Without proper documentation, you risk having legitimate deductions disallowed during an ATO review or audit, potentially leading to additional tax liabilities.

A word of caution: the ATO is watching

The ATO has intensified its focus on all aspects of the sharing economy, particularly short-term rental arrangements. The ATO has sophisticated data-matching capabilities with third-party platforms like Airbnb. This means they can identify discrepancies between what's reported on your tax return and what the platforms' records show. With this sophisticated data-matching program in place, failing to declare your sharing economy income is increasingly likely to trigger ATO scrutiny. Don't risk penalties and interest charges that could significantly impact your financial wellbeing.

Navigating the complex tax implications of property rentals can be challenging, even for the most diligent property owners. To ensure you're meeting all your obligations and maximising your legitimate deductions, it’s worthwhile consulting with a qualified accountant. They can provide personalised advice tailored to your specific situation, help you establish proper record-keeping systems, and ensure you're fully compliant with the latest ATO requirements.

Source: www.ato.gov.au/businesses-and-organisations/income-deductions-and-concessions/sharing-economy-and-tax/renting-out-all-or-part-of-your-home
www.ato.gov.au/businesses-and-organisations/income-deductions-and-concessions/sharing-economy-and-tax/renting-out-all-or-part-of-your-home/income-and-deductions-for-renting-out-your-home

Sole trader or company: what are the tax differences?

You may be starting out in business and trying to decide whether to become a sole trader or to set up a company. Alternatively, you may already be an established sole trader and considering switching to become a company.

Tax considerations are of course a vital component in deciding which of the two business structures is most suitable for you.

Start with the returns

The first practical difference is in relation to your tax return. As a sole trader, you simply add your business income and expenses to a separate Business and professional items schedule in your individual tax return that you lodge each year.

In the case of a company, there's a separate annual tax return, and tax to pay on the company's income. It's important to note that companies are subject to annual reviews by the Australian Securities and Investments Commission (ASIC), so financial records must clearly show transactions and the company's financial position, and allow clear statements to be created and audited if necessary. A number of strict legal and other obligations need to be met.

Tax returns for a company must clearly list the income, deductions and the liable income tax of the company. Also, directors and any employees of a company must lodge their own individual tax returns.

Tax rates

There is no tax-free threshold for companies – they simply pay tax on the amount they earn. However, for sole traders, whose tax is assessed as part of the individual's personal income, $18,200 is the tax-free threshold.

For all companies that are not eligible for the lower company tax rate, the full company tax rate of 30% will apply.

To be eligible for the lower company tax rate of 25% (from the 2021–2022 income year), the company needs to meet strict requirements to be a base rate entity. One of the tests is that your company's aggregated turnover for the relevant income year must be less than the aggregated threshold for that year – which since 1 July 2018 has been $50 million a year.

Other taxes

Both sole traders and companies can:

- register for goods and services tax (GST) if your GST turnover is $75,000 or more, or you'd like to claim fuel tax credits; and regardless of your turnover, you must register for GST if you provide taxi, limousine or ride-sourcing services; and
- employ people, and if the business's gross wages exceed the threshold set by your state or territory, then you will have to pay payroll tax.

Both types of business also need to pay capital gains tax (CGT) if a capital gain has been made, but sole traders may be able to reduce this gain by what are known as the discount and indexation methods. The latter may also be used by some companies.

If your employees in either business structure receive a fringe benefit then you may also need to pay fringe benefits tax (FBT).

Weighing up the pros and cons

In the process of making the final decision on which business structure is most suitable to you, many factors beyond tax issues need to be considered. You may prefer to have full control over your business and not want to worry about ongoing costs and reporting requirements – in this case you may choose to be a sole trader.

If it's a question of protection against potential personal liability, then a company structure may be more suitable.

Navigating these and other important issues will require expert guidance and advice to ensure you make the most effective decision for your business.

Source: https://asic.gov.au/for-business/small-business/starting-a-small-business/setting-up-a-business-structure-for-a-small-business/
https://business.gov.au/planning/business-structures-and-types/business-structures/difference-between-a-sole-trader-and-a-company

Keeping your super account secure

In the wake of recent cyber-attacks on several large Australian super funds, you might be wondering how to protect your retirement savings. These attacks compromised members' data and resulted in some people losing money from their accounts. Here's what happened and how you can help safeguard your super.

What happened?

The past few years have seen significant data breaches from well-known Australian companies outside of the superannuation sector, exposing a huge amount of consumer personal identity information. The cyber-attacks on superannuation funds reportedly used a technique called "credential stuffing" where cybercriminals used personal information stolen in previous data breaches (like email addresses and passwords) to attempt to access member accounts.

The attacks were timed for the early hours of the morning when most account holders would be asleep and unlikely to notice suspicious login attempts or account changes, and targeted members in the pension drawdown phase who are able to request lump sum withdrawals.

Super funds responded by identifying and contacting affected members, with some funds temporarily restricting the ability to change bank and contact details through mobile apps or online accounts while addressing the incident. Other funds impacted by the attacks advised members to log into their accounts to check their details and update their passwords.

Most funds indicated that their member accounts and retirement savings were secure and that members had not lost any money following the attacks. One super fund revealed a small number of members had lost a combined $500,000 during the cyber-attack, but after investigating the incidents where money was transacted out of a member’s account, the fund said it would make remediations out of the fund’s reserves.

Practical steps to protect your super account

Protecting your super account is a partnership between you and your super fund. Here are some practical steps that *you* can take to help keep your super safe:

- *Keep track of your super account:* The best defence is regular monitoring. Check your balance periodically, verify employer contributions are coming through, review your insurance cover, examine your annual statement, and ensure your contact details are current.
- *Upgrade your passwords to passphrases:* Never reuse passwords across different accounts. Instead, create a passphrase, which is a sentence or mix of four or more words that's easy for you to remember but difficult for others to guess. Include a combination of upper and lowercase letters, symbols and numbers, and aim for at least 14 characters. Avoid obvious choices like birth years, family names or hobbies that can be linked to you.
- *Enable Multi-Factor Authentication (MFA):* MFA adds an extra layer of protection by requiring two or more verification methods to access your account. This typically combines something you know (password/PIN), something you have (mobile device/security token), or something you are (fingerprint/facial recognition). Check if your super fund offers MFA and enable it if available.
- *Protect your devices:* Secure all devices you use to access your super account. Use strong passwords or passcodes, set up biometrics where possible, enable auto-lock when not in use, and activate "find your device" services so you can lock or wipe your device if it's stolen.
- *Be wary of unsolicited communications:* Take your time to verify the identity of anyone contacting you unexpectedly. Don't click links in suspicious emails or texts. Instead, contact your fund directly using the official contact details from their website.
- *Report suspicious activity:* Alert your super fund immediately if something doesn’t seem right with your account or if you receive suspicious communications.

For additional resources, visit the Australian Government's cyber.gov.au website, which offers cybersecurity information in English and other languages. Your super fund may also provide specific security guidance.

What payday super could mean for you

The way superannuation is paid may be about to undergo a significant transformation. As part of the Labor government’s efforts to strengthen the system, the proposed “payday super” reforms would require employers to pay employees’ superannuation contributions within seven calendar days of every payday. With draft laws now released for comment and payday super intended to apply from 1 July 2026, it’s important to understand what this could mean for you.

According to the ATO, while most employers do the right thing by their employees, an estimated $5.2 billion in super went unpaid in 2021–2022. The change to payday super is designed to improve the management of super payments and simplify payroll arrangements, reduce unpaid super incidents, and ultimately enhance retirement savings for Australians. For example, the government estimates that aligning super payments with paydays means a 25-year-old who earns a median income, with wages paid fortnightly and super currently paid quarterly, could be around $6,000 better off at retirement.

Employers

For employers, transitioning to payday super represents a shift in administrative processes. Some key considerations:

- *New payment timeframes:* From 1 July 2026, you'd need to ensure super contributions reach your employees' funds within seven calendar days of their payday, regardless of whether you pay weekly, fortnightly or monthly.
- *New terminology:* The draft legislation introduces "qualifying earnings" (QE) which equates to the current "ordinary time earnings base". QE will be used to calculate both super contributions and any shortfall charges. Any shortfall charges are currently calculated using the larger salary and wages figure.
- *Small Business Clearing House closure:* The ATO's Small Business Superannuation Clearing House (SBSCH) would close from 1 July 2026, so employers who use it would need to transition to suitable payroll software.
- *Extended timeframes for specific situations:* The legislation includes some flexibility for paying super to new employees, out-of-cycle payments and exceptional circumstances like natural disasters.
- *Penalties and charges:* The superannuation guarantee charge (SGC) would be redesigned to include components such as notional earnings (interest on unpaid super), administrative uplifts, and choice loadings for non-compliance with fund choice rules. Importantly, both on-time and late contributions would be tax-deductible, potentially offering some financial relief to employers.

Employees

For employees, payday super offers several potential benefits:

- *More frequent contributions:* Your super would be paid with each pay cycle rather than as infrequently as quarterly. This means your retirement savings may benefit from compound interest sooner.
- *Better visibility:* The alignment of super payments with your regular pay should make it easier to track whether your employer's meeting their obligations.
- *Improved protection:* The new system includes stronger mechanisms to detect and address unpaid super, with employers facing increasing penalties for non-compliance.
- *Fund processing times:* Super funds would have stricter timeframes for processing contributions, with allocation deadlines reduced from 20 business days to just three business days.

What happens next?

The draft legislation is open for public comment until 11 April 2025, with introduction of final legislation dependent on the 3 May 2025 federal election outcome. Employers should prepare by:

- reviewing current payroll systems and processes;
- considering the cash flow implications of more frequent super payments; and
- finding alternatives to the SBSCH clearing house if needed.

The draft legislation may change after consultation and the election, so stay informed about developments in this important area of workplace compliance.

Source: https://treasury.gov.au/consultation/c2025-627396

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Thomson Reuters (Professional) Australia Limited ABN 64 058 914 668
PO Box 3502, Rozelle NSW 2039

Tel: 1800 074 333

Email: SupportANZ@thomsonreuters.com

Website: www.thomsonreuters.com.au