Client Information Bulletin

BLAZE ACUMEN
CHARTERED ACCOUNTANTS

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CONTENTS

JobKeeper scheme (Initial Overview & Extension)

JobKeeper payments are available to entities that have ‘eligible employees’ or ‘eligible business participants’ (e.g. sole traders, partners in partnerships, adult beneficiaries of a trust and shareholders in or directors of a company), if the entity suffers a decline in turnover of at least 30% where the annual turnover is no more than AUD$1b or 50% otherwise. (Please note that turnover includes the turnover of associated entities combined).

The initial decline in turnover was measured by comparing projected GST turnover for a month or quarter in 2020 (the test period) with actual GST turnover for the comparable period in 2019 e.g. the September 2020 quarter with the same quarter in 2019.

Alternative decline in turnover tests that were available (where it was not appropriate to compare the test period with the comparison period) included:

- Where you did not commence business until after the comparison period;
- Where your turnover for the comparison period was unusually low (e.g. because of drought) – and not because of cyclical or regular seasonal variance; or
- Where your turnover increased significantly in the period before the test period (e.g. by 25% or more if looking at the 6-month period immediately before the test period).

Note: When you are enrolling for JobKeeper payments for the first time, you must enrol your business and notify the employee or business participant (if appropriate) by the end of the month you wish to claim for.

You must also make a monthly business declaration (no later than the 14th day) to claim JobKeeper payments for the previous month.

Sole traders and other eligible business participants

If you are a sole trader or other business participant (e.g. a company director or a partner), you cannot claim JobKeeper payments unless you are actively engaged in the business carried on by the entity (this includes a sole trader). You cannot be an employee of the particular business entity or a permanent employee of any other entity. There are also age and residency requirements that must be satisfied.

Only one payment per entity can be claimed. For example, in the case of a partnership, only one partner can claim JobKeeper.

Extension of JobKeeper scheme and other changes

The JobKeeper scheme was due to end on 27 September 2020 however the Government announced that the scheme will continue for an additional 6 months until 28 March 2021.

The changes to the JobKeeper scheme that the Government subsequently announced relate to:

- The eligibility rules (i.e. the decline in turnover test);
- The payment rates (i.e. a reduced and a lower rate introduced for part-time workers); and
- The new 1 July 2020 employment test (i.e. more employees will now be eligible for the JobKeeper scheme).

Eligible employees – from 3 August 2020

A person was an eligible employee for a JobKeeper fortnight starting on or after 3 August 2020 if they were:

- employed by an eligible employer (including if they were stood down or re-hired) at any time in the JobKeeper fortnight; and
- an eligible employee for a JobKeeper fortnight ending before 3 August 2020 using either the 1 March 2020 or 1 July 2020 employment test.

To meet the 1 July 2020 employment test, the employee must have on 1 July 2020:

- been employed by the eligible employer (or another entity in their wholly owned group), either as a non-casual employee (whether full-time, part-time or fixed-term) or a long term casual employee (employed on a regular and systematic basis during the 12 month period that ended on 1 July 2020);
- not be a permanent employee of any other employer; and

- be aged 18 years or older (a person aged 16 or 17 can also qualify if independent or not undertaking full time study on 1 July 2020).

The employee must also have met the existing residency tests and not been in receipt of parental leave, dad and partner pay or workers compensation for total incapacity for work.

If a person started work with their current employer after 1 July 2020, the employer will not be eligible to claim JobKeeper payments for that employee.

Additional turnover test – from 28 September 2020

From 28 September 2020, your business (including if you are a sole trader) will be required to re-assess its eligibility with reference to actual GST turnover in the September 2020 quarter. The business will need to demonstrate that it has met the relevant decline in turnover test in this quarter to be eligible for JobKeeper payments from 28 September 2020 to 3 January 2021.

Your business will need to further reassess its eligibility in January 2021. The business will need to demonstrate that it has met the relevant decline in turnover test in the December 2020 quarter to remain eligible for JobKeeper payments from 4 January to 28 March 2021.

Revised payment rates – from 28 September 2020

The amount of the JobKeeper payment was initially $1,500 a fortnight for each eligible business participant (or employee). Employers were therefore required to pay each eligible employee at least $1,500 per fortnight before tax.

The JobKeeper payment rates have reduced from 28 September 2020 as shown in the table below:

Period	Full rate per fortnight	Lower rate per fortnight
28 Sep 2020 to 3 Jan 2021	$1,200	$750
4 Jan 2021 to 28 Mar 2021	$1,000	$650

The full rate applies to:

- eligible business participants (e.g. sole traders) who were actively engaged in the business for 20 hours or more per week on average in February 2020 or in June 2020 (as appropriate); and
- eligible employees who, in the 4 weeks before 1 March 2020 or 1 July 2020 (as appropriate), were working for 20 hours or more a week on average.

The lower rate will apply to all other eligible business participants/employees.

Tax consequences

JobKeeper payments are assessable and should be included in your tax return (or business' tax return) as assessable income. If you pay salary or wages to employees, the wages that are effectively subsidised by JobKeeper payments are still deductible.

JobKeeper payments received by your business are not subject to GST and do not have to be taken into account in working out the decline in turnover.

Tip! The JobKeeper scheme is complicated. Talk to your Blaze Acumen tax adviser to see if you or your business is eligible.

Cash flow boost change

Legislation has been enacted to clarify that the cash flow boost is available to eligible small and medium businesses that are required to pay an amount to the ATO because they receive an alienated personal services payment. Broadly, this is a payment received by a personal services entity (e.g. a company or trust) that is ultimately treated as forming part of the income of an individual under the personal services income rules and has not been promptly paid to the individual as salary or wages.

Payment of an amount to the ATO in these circumstances gives rise to an entitlement to the cash flow boost in the same way as payment to the ATO of an amount withheld from an employee's salary or wages.

Note, the cash flow boost allows eligible small and medium businesses to receive up to a maximum of $100,000 in total in cash flow boost amounts by lodging their activity statements up to the month or quarter of September 2020.

Cash flow boosts are tax-free and not subject to GST. However, this can give rise to later tax consequences when the tax-free amounts are paid out of companies and unit trusts.

Tip! This is complicated so talk to your Blaze Acumen tax adviser.

No GDP adjustment to PAYG instalments for 2020-21

The GST and PAYG instalment amounts are usually adjusted every year using a formula known as the gross domestic product (GDP) adjustment.

A recent change in the law means there is no GDP adjustment to work out quarterly GST and PAYG instalment amounts for the 2020-21 income year. This change is in response to the COVID-19 pandemic.

COVID-19 early release of super

You can access up to $10,000 of your super in the 2020-21 financial year if adversely affected by the COVID-19 pandemic. This includes if you are a member of a SMSF. The amount you receive is tax-free (i.e. it is non-assessable non-exempt income).

The deadline for making an application has been extended to 31 December 2020 (originally it was 24 September 2020). Applications received before 31 December 2020 may be processed after that date.

Note, applications for COVID-19 early release of super in the 2019-20 financial year closed on 30 June 2020.

To apply for early release, you must:

- be unemployed;
- be eligible to receive a jobseeker payment (previously called “newstart allowance”), youth allowance for jobseekers, parenting payment (which includes the single and partnered payments), special benefit or farm household allowance; or
- on or after 1 January 2020, have been made redundant or had your working hours reduced by 20% or more or, if you are a sole trader, your business must have been suspended or suffered a reduction in turnover of at least 20%.

You can make an application using ATO online services (through myGov). If you have more than one super fund, there are no restrictions on the amount you can request for release from any account, except the $10,000 overall yearly limit.

You can only apply for one determination for 2020-21. You can request (say) $1,000 from one fund and (say) another $9,000 from another fund as long as it is in the same application.

You cannot make a subsequent application if you do not request or receive the full amount that has been approved in your first application for 2020-21.

As you are required to self-assess your eligibility for COVID-19 early release of super you must be certain you are in fact eligible. If the ATO subsequently determines you were not eligible, the amount of super released to you will be included in your assessable income and taxed at your marginal tax rate.

Tip! Use this measure as a last resort. Money taken from your super fund now will reduce the amount available once you retire.

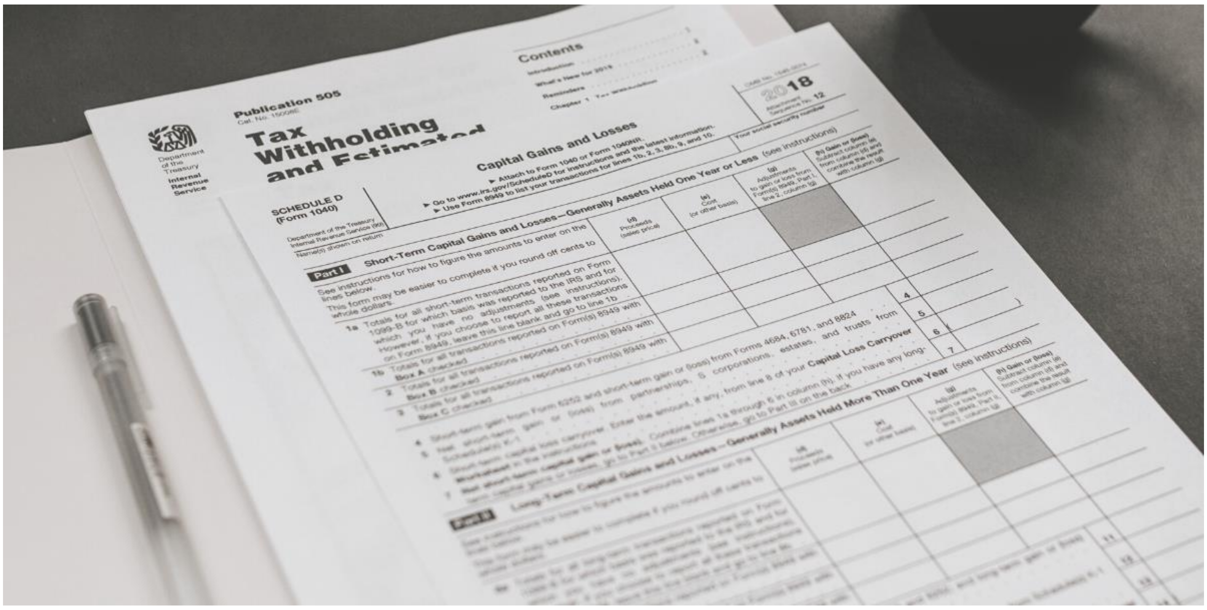
Don’t forget SMSF trustees are responsible for the members’ retirement savings. If you are an SMSF trustee, please make sure the member is eligible for early release of super before you release any funds.

Pensions and annuities – minimum drawdown amounts

To assist retirees, the government has reduced the minimum annual payment required for account-based pensions and annuities, allocated pensions and annuities and market-linked pensions and annuities. The minimum amounts have been reduced by 50% for the 2019-20 and 2020-21 financial years.

If the minimum drawdown amount has already been paid, payments can be stopped for the remainder of the year. If you have received more than the minimum drawdown amount, you can recontribute these amounts if you are eligible to make superannuation contributions (subject to other rules or limits such as contributions caps).

Tip! Speak to your Blaze Acumen adviser before making any decisions affecting your super.



It’s tax time again!

You have to lodge your income tax return for the 2019-20 tax year by 31 October 2020 – unless you use a registered tax agent. Your Blaze Acumen tax agent will be allowed to lodge your return at a later date, even as late as May next year in some cases.

Lodging a tax return

Are you a sole trader?

- Even if your income is below the tax-free threshold of $18,200 you still need to lodge a tax return.
- Do you pay PAYG instalments? Lodge your activity statements and pay all due PAYG instalments before you lodge your tax return so your income tax assessment takes into account the instalments you’ve paid throughout the year.

Are you a partnership?

If you operate your business in a partnership:

- the partnership lodges the partnership tax return, reporting the partnership’s net income or loss (assessable income less allowable deductions).

As an individual partner, you report on your individual tax return:

- your share of any partnership net income or loss
- any other assessable income, such as salary and wages, dividends and rental income.

The partnership doesn’t pay income tax on the income it earns. Instead, you and each of the partners pay tax on the share of net partnership income you receive.

Are you a trust?

- If you operate your business through a trust, the trust reports its net income or loss (this is the trust’s assessable income less allowable deductions).
- The trustee is required to lodge a trust tax return.
- As a trust beneficiary, you report on your individual tax return any income you receive from the trust.

Tip! Your Blaze Acumen registered tax agent can help you with your tax obligations.

Tax changes for 2019-20

Some of the 2019-20 tax changes that may affect you or your small business include:

- Instant asset write-off;
- Accelerated depreciation;
- PAYG withholding obligations;
- Restructuring a small business;
- Bushfire payments;
- Director penalties; and
- Closely held trusts.

Instant asset write-off

The instant asset write-off ("IAWO") for depreciating assets has been expanded and also extended by 6 months to 31 December 2020.

The cost caps for **small businesses** (total annual turnover under $10m) including sole traders and **medium businesses** (total annual turnover under $50m), are as follows:

Date asset first used or installed ready for use by small or medium business	Cap (asset must cost less than)
1 July 2019 – 11 March 2020	$30,000
12 March 2020 – 31 December 2020	$150,000

You should note that:

- the increased caps apply to assets acquired by small business entities (total annual turnover less than $10m) at or after 7.30 pm (AEST) on 12 May 2015;

- a medium business (total annual turnover $10m or more and under $50m) can access the instant asset write-off for depreciating assets first acquired in the period beginning at or after 7.30 pm (AEST) on 2 April 2019 and ending on 31 December 2020. The threshold depends on when the asset was first used or installed ready for use. If the asset was first used or installed ready for use:
  - before 12 March 2020 — the threshold is $30,000;
  - on or after 12 March 2020 to 31 December 2020 — the threshold is $150,000;
- the threshold for a "low value" pool for a small business entity (total annual turnover under $10m) is $150,000 for 2019-20 (and also 2020-21 if the entity's income year ends on or before 31 December 2020) - the total value of the pool is deductible at the end of the income year if it is below the threshold; and
- the lock-out rule – which locks a small business entity out of the simplified depreciation rules for 5 years if the business stops using those rules - will begin to apply again from the first income year that ends after 31 December 2020 (i.e. 2021-22 for businesses that balance at 30 June).

The cost caps for **larger businesses** (total annual turnover $50m or more and under $500m) are as follows:

Date asset first used or installed ready for use by a large business	Cap (asset must cost less than)
12 March 2020 – 31 December 2020	$150,000

You should note that:

- the increased cap applies to assets acquired in the period beginning at or after 7.30 pm (AEST) on 2 April 2019 and ending on 31 December 2020; and
- a large business that has adopted a substituted accounting period can access the $150,000 instant asset write-off for depreciating assets first acquired in the period beginning on 2 April 2019 and ending on 31 December 2020.

Accelerated depreciation

This applies to **new** depreciating assets first held on or after 12 March 2020 and first used or installed ready for use on or after 12 March 2020 and before 1 July 2021. The asset must be used principally in a business in Australia or located in Australia.

The accelerated rate for small businesses is 57.5% (instead of 15%). The accelerated rate does not apply if you deduct immediately the cost of the asset using the instant asset write-off.

PAYG withholding obligations

If your business fails to comply with a PAYG withholding obligation e.g. failing to withhold an amount from an employee's salary or wages or failing to report the withheld amount to the ATO, your business won't get a deduction for the relevant amount (e.g. the amount not withheld or the amount not paid to the ATO).

You may be able to reinstate the lost deduction by making a voluntary disclosure to the ATO.

Restructuring a small business

If you are a small business owner and you restructure the business, capital gains or losses that would ordinarily arise from transferring the business assets to another entity are deferred where there is no change in the ultimate economic ownership of the asset. This is called the small business restructure roll-over. It may apply where, for example, you are a sole trader and you transfer the business to a company you control.

Roll-over relief can apply to an asset used in a business carried on by your affiliate or a connected entity (that is also a small business).

A legislative amendment in 2020 corrected a drafting error which incorrectly set the turnover threshold for an affiliate or entity connected with a small business at $2 million instead of $10 million. The change to set the threshold at $10 million goes back to 1 July 2016, which is when this roll-over commenced.

Bushfire payments

Government payments and non-cash benefits (including local government payments and benefits) made directly as a result of bushfires commencing in Australia in 2019-20 are not taxable (i.e. they are non-assessable non-exempt income).

Director penalties

The director penalty regime has been extended to cover unpaid GST, luxury car tax and wine equalisation tax owed by a company, in relation to GST instalment quarters and tax periods (as appropriate) that start on or after 1 April 2020. The ATO has issued guidelines (PCG 2020/2) explaining how it intends to administer these changes.

Closely held trusts

A “closely held trust” is a discretionary trust or a trust where 20 or fewer individuals have between them, directly or indirectly and for their own benefit, fixed entitlements to 75% or more of the income or capital of the trust.

Family trusts and trusts that are interposed entities are now classified as closely held trusts (from the 2019-20 tax year) for the purposes of applying a set of complex integrity rules.

The effect of the change is that the trustee of a closely held trust may be liable to pay trustee beneficiary non-disclosure tax (“TBNT”) in relation to a “circular trust distribution”. This is where a share of the net income of a trust is included in the assessable income of a trustee beneficiary, the trustee of the closely held trust becomes presently entitled to an amount that is reasonably attributable to the whole or a part of the untaxed part of that share and TBNT has not previously been payable in respect of that share, and that pattern continues through a chain or trusts. This is not a common arrangement.

Tip! Contact your Blaze Acumen tax adviser to find out about all the tax changes in 2019-20 that might affect your or your business.

Tax losses

2019-20 was a difficult year for many businesses and you may have made a tax loss.

A tax loss is when the total deductions you can claim, excluding gifts, donations and personal super contributions, are greater than your total income for an income year.

If your business makes a tax loss, you may be able to:

- offset the loss in the same income year against other assessable income; or
- carry forward the loss and claim it as a business deduction in a later year (subject to meeting the various loss recoupment rules).

If you're a sole trader or in a partnership and want to offset a tax loss, first check if the business activity meets at least one of the "commerciality" tests under the non-commercial loss rules. (Those rules do not apply to losses made by primary producers and professional artists whose income from other sources is less than $40,000).

If you do meet one of the "commerciality" tests, then you can offset the loss against other assessable income (such as salary or investment income) in the same income year.

If you don't meet the "commerciality" tests, you can defer the loss or carry it forward to future years. For example, you can offset it when you next make a profit.

Non-commercial losses made by an individual with adjusted taxable income exceeding $250,000 are quarantined.

If your business is a company, you can generally choose the year you want to claim a loss. If your business has made more than one tax loss in a year, you will need to consider each tax loss separately.

The rules for record keeping still apply when it's related to business losses. You need to keep records for five years for most transactions. However, if you fully deduct a tax loss in a single income year, you only need to keep records for four years from that income year.

Personal services income

If you operate your business through a company or a trust, income earned by the company or trust from the provision of your personal services (personal services income or "PSI") will be attributed to you unless:

- the company or trust is carrying on a personal services business ("PSB"); or
- the PSI was promptly paid to you as salary or wages.

The company or trust will be conducting a PSB if at least one of the following tests are satisfied:

- the results test (the most important test) - this is based on common law criteria for characterising an independent contractor (in contrast to an employee/employer relationship);
- the unrelated clients test – this requires the PSI to be earned from at least 2 unrelated clients who contract your services as a direct result of an advertisement or other public offer of your services. A recent Full Federal Court case has confirmed that the test can be satisfied if your services are advertised through LinkedIn and the work is obtained as a direct result of that advertising;
- the employment test – this requires at least 20% (by market value) of your work to be performed by employees who are not your associates; and
- the business premises test – this requires you to use business premises that meet certain conditions (e.g. you have exclusive use of the premises and the premises must be physically separate from any premises you use for private purposes).

If 80% or more of your PSI (with certain exceptions) is income from one client (or the client and their associate(s)) and the results test is not met, the company or trust will need to obtain a PSB determination from the ATO. The company or trust will not be conducting a PSB otherwise.

The company or trust cannot deduct amounts that relate to gaining or producing your PSI, unless you could have deducted the amount as an individual or the company or trust received the PSI in the course of carrying on a PSB.

If the company or trust does not conduct a PSB, additional PAYG withholding obligations can arise.

Even if you don't use a company or trust to derive your PSI, there are limitations on the deductions that you may claim against your PSI. For example, you may not be able to deduct certain home office expenses such as occupancy expenses which includes mortgage interest or rent.

Tip! The PSI rules are complicated, especially if you provide your services through a company or trust. Talk to your Blaze Acumen tax adviser if you have any questions.

Home office

A lot more people are working from home because of the COVID-19 pandemic. If you operate your business from a home office, you can deduct the expenses of running that office. A home office is a room in your home that is used exclusively (or almost exclusively) for business activities.

Expenses you can claim a deduction for include:

- occupancy expenses – these include rent, mortgage interest, water rates, land taxes and house insurance premiums. Occupancy expenses are usually calculated by apportioning the expenses between the home office and the rest of the property on a floor area basis;
- running expenses – these are the increased costs from using your home for your business, including electricity or gas charges for heating, cooling and lighting, cleaning costs and the

decline in value and the cost of repairs of deprecating assets such as furniture, furnishings and equipment; and
- work related phone and internet expenses, including the decline in value of the handset – an apportionment will be required if the phone or computer is not used exclusively for work.

If you are an employee working from home, you may be able to claim a portion of your running expenses and work-related phone and internet expenses.

To make it easier for people to claim deductions for working from home due to the COVID-19 pandemic, the ATO will allow a rate of 80 cents per hour from 1 March 2020 until 31 December 2020 for all additional running expenses. This also applies to anyone working from home, even if not operating a business.

This is different from the 52 cents per hour claim that covers fewer types of expenses. Talk to your Blaze Acumen tax adviser about what method is most appropriate for your circumstances.

Government grants

If your business has received a grant or payment from the Australian Government or a State or Territory Government, you will need to include it in your tax return if it is assessable.

Grants and payments that are assessable income include:

- JobKeeper payments;
- fuel tax credits and product stewardship for oil benefit;
- wine equalisation tax producer rebate;
- grants, such as an amount you receive under the Australian Apprenticeships Incentives Program; and
- subsidies for carrying on a business.

There are some Government grants and payments that you do not need to pay tax on. One example of this is the cash flow boost.

Company tax rate

The 2019-20 tax rate for a company whose total annual turnover is less than $50m (called a “base rate entity”) is 27.5%. This rate reduces to 26% for 2020-21.

However, if more than 80% of the company’s assessable income is “base rate entity passive income” (e.g. dividends, rent, interest, royalties and net capital gains), the standard 30% rate applies.

Small business tax offset

A sole trader, an individual who is a partner in a partnership or an individual who is a beneficiary of a trust may qualify for the small business tax offset if the sole trader, partnership or trust qualifies as a small business entity (total annual turnover less than $10m). The offset is not available to an individual acting as a trustee of a trust.

The offset for 2019-20 is equal to 8% of the income tax payable on the sole trader’s or other individual’s taxable income that qualifies as their net small business income (the offset rate is 13% for 2020-21). Note, the offset is however capped at $1,000.

Taxable payments annual report

Businesses that pay contractors for certain services may need to lodge a taxable payments annual report ("TPAR") with the ATO. This is the first year that businesses that pay contractors to provide road freight, information technology, security, investigation, or surveillance services may need to lodge a TPAR with the ATO. This is in addition to those businesses providing building and construction, cleaning, or courier services that are already required to report.

The TPAR for 2019-20 should have been lodged by 28 August 2020.

Key tax dates

Date	Obligation
6 Oct 2020	2020-21 Federal Budget
14 Oct 2020	September JobKeeper monthly business declaration due
21 Oct 2020	Payment of annual PAYG instalment for 2019-20
28 Oct 2020	September quarter BAS due Payment of first PAYG instalment for 2020-21 by quarterly payers September quarter SG due
31 Oct 2020*	2019-20 income tax return due (if not lodging via a registered tax agent)
	PAYG withholding annual reports due (no ABN withholding; interest, dividend and royalty payments paid to non-residents and payments to non-residents)
14 Nov 2020*	October JobKeeper monthly business declaration due
21 Nov 2020*	October monthly BAS due
21 Dec 2020	November monthly BAS due

*Next business day.

Note! Talk to your Blaze Acumen tax agent to confirm the correct due dates for your own tax obligations. For example, you may have more time to lodge and pay if impacted by bushfires or COVID-19.