Personal Income Tax Cuts passed!

Parliament has passed the Government's Personal Income Tax plan, meaning that the first stage of the proposed income tax cuts will start to take effect from 1 July 2018.

According to the Prime Minister, taxes "will now be lower, fairer and simpler".

The Government's plan has three steps:

1. The Government will introduce the Low and Middle Income Tax Offset (**in addition** to the Low Income Tax Offset) from **1 July 2018**, being a non-refundable tax offset of up to $530 per annum to Australian resident low and middle income taxpayers (apparently over 10 million taxpayers will get at least some tax relief from this new offset in 2019 income year).

   The offset will be available for the 2019, 2020, 2021 and 2022 income years and will be received as a lump sum on assessment after an individual lodges their tax return.

2. Lifting tax brackets, to protect Australians from the impact of 'bracket creep', as follows:

   - From **1 July 2018**, the top threshold of the 32.5% personal income tax bracket will increase from $87,000 to $90,000.

   - From 1 July 2022, the 19% personal income tax bracket will increase from $37,000 to $41,000, and the top threshold of the 32.5% personal income tax bracket will further increase from $90,000 to $120,000.

     The low income tax offset will also be lifted to $645.

3. The 37% tax bracket will be removed entirely from 1 July 2024, and the top threshold of the 32.5% personal income tax bracket will be increased from $120,000 to $200,000.

Further company tax cuts deferred (for now . . .)

The Government has decided not to put the *Treasury Laws Amendment (Enterprise Tax Plan No. 2) Bill 2017* to a vote in the Senate ... for the present point in time (it had already passed the House of Representatives without amendment).

The Bill aims to progressively extend the lower 27.5% corporate tax rate to all corporate tax entities by the 2023/24 financial year, and further reduce the corporate tax rate in stages so that, by the 2026/27 financial year, the corporate tax rate for all entities would be 25%.

ATO guide to the 5 most common Tax Time mistakes

As Tax Time 2018 has 'kicked off', the ATO has profiled the **five most common mistakes** they see, including taxpayers who are:

- leaving out some of their income (e.g., forgetting a temp or cash job, capital gains on cryptocurrency, or money earned from the sharing economy);
- claiming deductions for personal expenses (e.g., home to work travel, normal clothes or personal phone calls);
- forgetting to keep receipts or records of their expenses (around half of the adjustments the ATO makes are because the taxpayer had no records, or they were poor quality);
- claiming for something they never paid for – often because they think everyone is entitled to a 'standard deduction'; and
- claiming personal expenses for rental properties – either claiming deductions for times when they are using their property themselves, or claiming interest on loans used to buy personal assets like a car or boat.

ATO Assistant Commissioner Kath Anderson reiterated the three 'golden rules' for work-related expenses: *"You must have spent the money yourself and not have been reimbursed, it must be directly related to earning your income, and you must have a record to prove it."*

Cents per Km Deduction Rate for Car Expenses from 1 July 2018

The Commissioner of Taxation has determined that the rate at which work-related car expense deductions may be calculated using the cents per kilometre method is 68 cents per kilometre for the income year commencing 1 July 2018 (up from 66 cents per kilometre).

ATO putting clothing claims through the wringer

A focus on work-related clothing and laundry expenses this Tax Time will see the ATO *"more closely examine taxpayers whose clothing claims don't suit them"*.

According to Assistant Commissioner Kath Anderson, around **6 million people** claimed work-related clothing and laundry expenses last year, with total claims adding up to nearly $1.8 billion.

She went on to say:

"While many of these claims will be legitimate, we don't think that half of all taxpayers would have been required to wear uniforms, protective clothing, or occupation-specific clothing."

With clothing claims up nearly 20% over the last five years, the ATO believes a lot of taxpayers are either making mistakes or deliberately over-claiming.

Common mistakes include people claiming ineligible clothing, claiming for something without having spent the money, and not being able to explain the basis for how the claim was calculated.

"Around a quarter of all clothing and laundry claims were exactly $150, which is the threshold that requires taxpayers to keep detailed records.

We are concerned that some taxpayers think they are entitled to claim $150 as a 'standard deduction' or a 'safe amount', even if they don't meet the clothing and laundry requirements," Ms Anderson said.

"Just to be clear, the $150 limit is there to reduce the record-keeping burden, but it is not an automatic entitlement for everyone. While you don't need written evidence for claims under $150, you must have spent the money, it must have been for uniform, protective or occupation-specific clothing that you were required to wear to earn your income, and you must be able to show us how you calculated your claim."

Ms Anderson said the ATO also has conventional clothing in its sights this year. *"Many taxpayers do wear uniforms, occupation-specific or protective clothing and have legitimate claims. However, far too many are claiming for normal clothing, such as a suit or black pants. Some people think they can claim normal clothes because their boss told them to wear a certain colour, or items from the latest fashion clothing line. Others think they can claim normal clothes because they bought them just to wear to work.*

"Unfortunately they are all wrong – you can't claim a deduction for normal clothing, even if your employer requires you to wear it, or you only wear it to work".

Transacting with cryptocurrency

Editor: With interest in cryptocurrencies (such as Bitcoin) increasing, the ATO has issued guidance regarding various tax consequences of transactions involving cryptocurrencies.

Any capital gains made on the disposal of a cryptocurrency (including using the cryptocurrency or converting it to Australian dollars) may be taxed, although certain capital gains or losses from disposing of a cryptocurrency that is a 'personal use asset' are disregarded.

Cryptocurrency may be a personal use asset if it is kept or used mainly to purchase items for personal use or consumption (but the longer the period of time that a cryptocurrency is held, the less likely it is that it will be a personal use asset).

Note: If the cryptocurrency is held as an investment, the taxpayer will not be entitled to the personal use asset exemption but, if they hold the cryptocurrency as an investment for 12 months or more, they may be entitled to the CGT discount.

If the disposal is part of a business the taxpayer carries on, the profits made on disposal will be assessable as ordinary income and not as a capital gain.

Editor: The ATO has also provided guidance regarding the tax consequences of the loss or theft of cryptocurrency, as well as of 'chain splits'.

Division 7A benchmark interest rate for 2019

The benchmark interest rate for 2019, for the purposes of the deemed dividend provisions of Division 7A and the associated complying Division 7A loan agreements, has been set at 5.20% (i.e., down from 5.30% for 2018).