SIRAGUSA
ACCOUNTANTS & ADVISERS

2021 Guide for Individuals

What's new

Superannuation Guarantee increases to 10%

The Superannuation Guarantee (SG) rate will rise from 9.5% to 10% on 1 July 2021 and will then steadily increase by 0.5% each year until it reaches 12% on 1 July 2025.

What this will mean to you depends on whether your employment agreement. If your employment agreement states you are paid on a 'total remuneration' basis (base plus SG and any other allowances), then your take home pay might be reduced by 0.5%. That is, a greater percentage of your total remuneration will be directed to your superannuation fund. For those paid a rate plus superannuation, then your take home pay will remain the same, but your superannuation fund will benefit from the increase. If you are used to annual increases, the 0.5% increase might simply be absorbed into your remuneration review.

2% deposit home loans for single parents

The Government will guarantee the loans of 10,000 single parents with dependants to enable them to access a home loan with a deposit as low as 2% under the Family Home Guarantee. Similar to the first home loan deposit scheme, the program will guarantee the additional 18% normally required for a deposit without lenders mortgage insurance.

The Family Home Guarantee is aimed at single parents with dependants, regardless of whether that single parent is a first home buyer or previous owner-occupier. Applicants must be Australian citizens, at least 18 years of age and have an annual taxable income of no more than $125,000.

The legislation enabling this measure is before Parliament and not yet law.

5% deposit home loans for first home buyers building new homes

The First Home Loan Deposit Scheme will be extended by another 10,000 places from 1 July 2021. Eligible first home buyers can build a new home with a deposit of as little as 5% (lenders criteria apply). The Government guarantees a participating lender up to 15% of the value of the property purchased that is financed by an eligible first home buyer's home loan. Twenty seven participating lenders offer places under the scheme.

Tax offsets and relief for low and middle income earners

The Low and Middle Income Tax Offset (LMITO) will be extended for the 2021-22 financial year. The LMITO provides a tax reduction of up to $1,080 for individuals with a taxable income of up to $126,000. The LMITO reduces the tax you owe and can only be reduced to zero – you do not get the excess as a refund.

The Medicare levy low-income thresholds for singles, families, and seniors and pensioners will increase from 1 July 2020 to take account of recent movements in the CPI so that low-income taxpayers generally continue to be exempt from paying the Medicare levy.

CGT and granny flat arrangements

From 1 July 2021, it is expected that a targeted capital gains tax (CGT) exemption will be available for granny flat arrangements where there is a formal written agreement.

Typically, granny flat arrangements occur when an older person transfers some sort of consideration (often title to property or proceeds from the sale of property) to their adult child in exchange for the promise of ongoing care, support and housing. The legal meaning of granny flat is derived from social security law; it describes an arrangement rather than a type of accommodation and can arise whenever money or other consideration is given in exchange for a right to use accommodation for life.

The CGT exemption may be available where the person has reached pension age or has a disability, and the arrangement is in writing and is not commercial.

The legislation to enact this exemption is pending.

Areas of ATO scrutiny

Cryptocurrency

Cryptocurrency has become normalised to the point that there are Bitcoin ATMs in most Australian capital cities. The ATO estimates there are over 600,000 taxpayers that have invested in crypto-assets in recent years and it’s an area of keen interest to them.

The tax treatment of cryptocurrency depends on a range of factors, including whether the items are acquired with the intention of making a profit on sale or exchange in the short term or whether they are intended to be held for longer term investment purposes.

It is also important to recognise that a taxing event can be triggered when one item of cryptocurrency is exchanged for another item (that is, even if no cash proceeds are received on disposal).

The tax laws can be complex in this area and it’s important to ensure that you get the right advice.

It’s important to keep records of your cryptocurrency exchanges. The ATO regularly runs data matching projects, and they have access to the data from many crypto platforms and banks.

Work from home expenses

If you worked from home during lockdown and spent money on work related items that were not reimbursed by your employer, you might be able to claim some of these expenses as a deduction – but not everything you purchase can be claimed.

If you are claiming your expenses, there are three methods you can use:

- **The ATO's simplified 80 cents per hour short-cut method** – you can claim 80 cents for every hour you worked from home from 1 March 2020 to 30 June 2021. You will need to have evidence of hours worked like a timesheet or diary. For example, if you worked from home for 7 hours a day on the weekdays from 1 August to 30 November 2020, that's 84 working days (in NSW) or 588 hours. Using the 80 cents COVID-hourly rate, you could claim $470.40. The rate covers all of your expenses and you cannot claim individual items separately, such as office furniture or a computer.
- **Fixed rate 52 cents per hour method** – applies if you have set up a home office but are not running a business from home. You can claim 52 cents for every hour and covers the running expenses of your home. You can claim your phone, internet, or the decline in value of equipment separately.
- **Actual expenses method** – you can claim the actual expenses you incur (and reduce the claim by any personal use and use by other family members). You will need to ensure you have kept records such as receipts to use this method.

It's this last method, the actual method, the ATO is scrutinising because people using this method tend to lodge much higher claims in their tax return. The ATO has highlighted four ineligible expenses that are being claimed:

- Personal expenses such as coffee, tea and toilet paper
- Expenses related to a child's education, such as online learning courses or laptops
- Claiming large expenses up-front (instead of claiming depreciation for assets), and
- Occupancy expenses such as rent, mortgage interest, property insurance, and land taxes and rates, that cannot generally be claimed by employees working from home.

Disaster and pandemic relief payments

If you received a $1,500 pandemic leave disaster payment, this amount is assessable income and will be included as income in your tax return.

Similarly, if you are a member of the arts community and received a payment under the creative economy support package, these payments are assessable income but any expenses you incurred for the activity the payment covered will be deductible.

For landlords

If you own commercial or residential premises that you rent out and COVID has had an impact, very little will change from a tax perspective.

- If tenants remain in the property or the property remains genuinely available for rent, you can continue to claim expenses as usual, even if the rental rate has been reduced on a temporary basis or tenants have been unable to pay rent for a period of time.
- If you negotiated with your bank to defer mortgage repayments, you can continue to claim interest as the deferred interest is capitalised.
- If you received an insurance payment for rent defaults, or your tenant made a back payment of rent they owe, this income is taxable and will need to be declared in your tax return.

If your rental property is outside of Australia, and you are an Australian resident for tax purposes, you must recognise the rental income you received in your tax return (excluding any tax you have paid overseas), unless you are classified as a temporary resident for tax purposes. You can claim expenses related to the property, although there are some special rules that need to be considered when it comes to interest deductions. For example, if you have borrowed money from an overseas lender you might be subject to withholding tax obligations.

Superannuation

Indexation increases contribution caps and the transfer balance cap

Indexation ensures that the caps on superannuation that limit how much you can transfer into super and how much you hold in a tax-free retirement account, remain relevant by making pre-determined increases in line with inflation. To trigger indexation, the consumer price index (CPI) needed to reach 116.9. Australia reached 117.2 in December 2020 triggering increases to the contribution and transfer balance caps from 1 July 2021. The next increase will occur when a December quarter CPI reaches 123.75.

Concessional and non-concessional contribution caps

From 1 July 2021, the superannuation contribution caps will increase enabling you to contribute more to your superannuation fund (assuming you have not already reached your transfer balance cap).

The concessional contribution cap will increase from $25,000 to $27,500. Concessional contributions are contributions made into your super fund before tax such as superannuation guarantee or salary packaging.

The non-concessional cap will increase from $100,000 to $110,000. Non-concessional contributions are after tax contributions made into your super fund.

The bring forward rule enables those under the age of 65 to contribute three years' worth of non-concessional contributions to your super in one year. From 1 July 2021, you will be able to contribute up to $330,000 in one year. Total superannuation balance rules will continue to apply. However, if you have utilised the bring forward rule in 2018-19 or 2019-20, then your contribution cap will not increase until the three year period has passed.

Increase to the transfer balance cap

The transfer balance cap (TBC) limits how much money you can transfer into a tax-free retirement account. From 1 July 2021, the general TBC will increase from $1.6m to $1.7m but not everyone will benefit from the increase.

From 1 July 2021, there will not be a single cap that applies to everyone. Instead, every individual will have their own personal TBC of between $1.6 and $1.7 million, depending on their circumstances.

If your superannuation is in accumulation phase before 1 July 2021, that is, you have not started taking an income stream (pension), then your cap will be the fully indexed amount of $1.7m.

However, if you have started taking an income stream - you have retired or are transitioning to retirement - then your indexed TBC will be calculated proportionately based on the highest ever balance of your account between 1 July 2017 and 30 June 2021. The closer your account is to the $1.6m cap, the less impact indexation will have. For anyone who reached the $1.6m cap at any time between 1 July 2017 and 30 June 2021, indexation will not apply and your cap will continue to be $1.6m.

Minimum superannuation drawdown rates

The Government has announced an extension of the temporary reduction in superannuation minimum drawdown rates for a further year until 30 June 2022.

Minimising the cost of end of year compliance

Having your paperwork organised always makes life much easier. Preparing your end of year documents and information prior to coming to see us will save you time and money. This is a general list of what to have ready when we next meet with you.

- Income Statement
- Interest income from banks and building societies
- Dividend statements for dividends received
- Tax statements of managed investment funds
- Rental property statements from real estate agent and details of other expenditure incurred
- For share sales or purchases, the purchase and sale contract notes
- For real estate sales or purchases, the solicitor’s correspondence for the purchase and sale
- Any expenses related to your work you have not claimed from your employer
- Self-education expenses
- Travel expenses
- Donations to charities
- Payments for income protection or sickness and accident insurance
- Health insurance and rebate entitlement
- Family Tax Benefits received
- Commonwealth assistance notices
- IAS statements or details of PAYG Instalments paid
- Details of any transactions involving cryptocurrency (e.g., Bitcoin)
- Details of any income derived from participating in the sharing economy (e.g., Uber driving, rent from AirBNB, jobs completed through Airtasker etc.,)