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tax news | views | clues

Understanding the Australian Government's plan for cash and cheques

As digital payments become increasingly prevalent, the Federal Government has announced it's taking significant steps to modernise the nation's payment system while working to ensure that no one's left behind. This involves maintaining the use of cash for essential transactions and phasing out cheques in a gradual manner. The government says it intends to consult extensively with stakeholders, including small businesses and people in regional communities, to develop a cash mandate that's both practical and inclusive

Despite the rapid adoption of digital payment methods, cash remains an essential part of the Australian economy. Approximately 1.5 million Australians rely on cash for over 80% of their in-person transactions. The government's plan to mandate cash acceptance for essential goods and services such as groceries and fuel ensures that these individuals can continue to participate fully in the economy.

The use of cheques has seen a dramatic decline, with a 90% reduction over the past decade. As digital payment options become more accessible and preferred, the government has set a timeline to phase out cheques entirely by 2029. Cheques will no longer be issued after June 2028 and will cease to be accepted by September 2029. The government expects banks to play a crucial role in supporting cheque users by facilitating a smooth transition to alternative payment methods.

For individuals who prefer cash or still use cheques, these changes may seem worrying. However, the government says its approach is designed to ensure that everyone can continue to participate fully in the economy, regardless of their preferred payment method. By mandating cash acceptance for essential purchases and providing a long lead time for the phase-out of cheques, the government is taking steps to ensure a smooth transition.

The consultation process offers an opportunity for people and businesses to voice any concerns and help shape the future of Australia's payments system. Whether you're concerned about privacy and digital security, or simply prefer traditional payment methods, staying informed and engaged is crucial as these changes unfold.

Proposed changes to HELP loans could mean lower repayments in 2025

If you're one of the millions of Australians with a Higher Education Loan Program (HELP) debt, you might be wondering how the government's proposed changes to HELP loans could affect you. These changes are subject to the passage of legislation, but are proposed to take effect by 1 June 2025.

One of the most significant aspects of the proposed changes is a one-off 20% reduction in all HELP debts. This reduction would be automatically applied by the ATO before the annual indexation on 1 June 2025. For example, if you have a HELP balance of $27,600, you could expect a reduction of approximately $5,520 in your debt.

From 1 July 2025, the minimum income threshold for making compulsory HELP repayments is proposed to increase from $54,435 to $67,000. This means you'll only start repaying your HELP debt once your income exceeds $67,000. The new repayments will be calculated only on the income above this threshold, but the rates will be higher compared to the current system. Here are the proposed new marginal repayment rates:

- *income below $67,000*: no repayment required;
- *income between $67,001 and $124,999*: 15 cents for each dollar over $67,000; and

- *income above $125,000*: $8,700, plus 17 cents for each dollar over $125,000.

Another crucial change is the proposed capping of the HELP indexation rate. Once the legislation is passed, the indexation rate will be the lower of either the consumer price index (CPI) or the wage price index (WPI). This adjustment will be backdated on all existing HELP, VET student loans, and other similar accounts from 1 June 2023. This means that if your HELP balance was indexed based on the CPI in 2023 and 2024, the ATO will adjust your account to reflect the lower indexation, potentially providing a refund if your balance falls below zero.

Understanding the Medicare levy and Medicare levy surcharge

Navigating the Australian tax system can be challenging, especially when it comes to understanding the Medicare levy and the Medicare levy surcharge. Let's break these down to help you understand who pays them and how private health insurance affects your tax return.

The Medicare levy is a compulsory charge that helps fund Australia's public healthcare system. Almost all Australian taxpayers pay this levy, which is 2% of your taxable income. This levy's generally withheld from your pay by your employer throughout the year, so you may not notice it until tax time.

It's important to note that having private health insurance doesn't exempt you from paying the Medicare levy; it only affects your liability for the Medicare levy surcharge.

In certain cases, you might be eligible for a reduction or exemption from the Medicare levy. For instance, if you meet specific conditions such as being a low income earner, foreign resident or having a medical exemption, you may qualify for a reduced rate or full exemption.

The Medicare levy surcharge (MLS) is an additional charge designed to encourage higher-income earners to take out private hospital insurance, thereby reducing the strain on the public healthcare system. Unlike the Medicare levy, the MLS isn't automatically withheld from your income, but is calculated when you lodge your tax return.

You may be liable for the MLS if your income exceeds the MLS threshold and you, your spouse or your dependent children don't have an appropriate level of private patient hospital cover for the entire income year. The surcharge rates vary based on your income tier.

Your income for MLS purposes includes several components beyond your taxable income, such as reportable fringe benefits, total net investment losses and reportable super contributions. If you have a spouse, their income's also considered in the calculation.

To avoid the MLS, you need an appropriate level of private patient hospital cover. For singles, this means a policy with an excess of $750 or less, and couples or families need a policy with an excess of $1,500 or less. Your policy must cover you, your spouse and all dependants for the full income year to avoid the surcharge.

Keep in mind that extras-only cover (such as for dental or optical) and travel insurance don't qualify as private patient hospital cover for MLS purposes.

FBT and tax considerations for end-of-year parties and gifts

As the end-of-year season approaches, it's a great time to celebrate with your employees and show appreciation for their hard work throughout the year. However, it's essential to understand the potential tax implications, particularly concerning fringe benefits tax (FBT), when planning holiday entertainment or gifts for employees.

FBT is a tax employers pay on certain benefits provided to their employees or employees' associates (like family members). When planning a festive gathering, such as a Christmas party, it's crucial to determine if your event might attract FBT. Here are some key points to consider:

- *Location and attendees:* If your party is held on business premises during a working day and is only for current employees, you generally won't have to pay FBT on food and drinks. However, if the event is off-site or includes employees' associates, you might need to consider FBT, unless the cost per person is under $300 and deemed a minor benefit.
- *Entertainment and gifts:* If you provide gifts alongside the party, remember that gifts under $300 per person can also qualify as minor benefits, exempting them from FBT. However, if gifts exceed this amount, FBT may apply.
- *Including your clients:* Costs related to clients attending your event are not subject to FBT. This means you can invite clients without worrying about FBT implications for their expenses.

When it comes to calculating FBT on entertainment-related benefits, you have a few options:

- *Actual value method*: This method involves calculating the actual cost of the entertainment provided to employees and their associates. If non-employees are involved, you need to apportion the costs accordingly. For example, if you host a dinner where employees and clients are present, only the portion related to employees is considered for FBT.
- *50:50 split method:* If you hire or lease entertainment facilities (such as a corporate box or

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function room, this method allows you to allocate 50% of the total entertainment leasing expenses to FBT, regardless of whether it's for employees, clients or others. This can simplify calculations but might not always be the most cost-effective approach.

- *Meal entertainment valuation:* If the entertainment involves meals without recreational activities, you can use meal entertainment valuation methods. Options include the 50:50 split or the 12-week method, where you track meal costs over a period and determine the taxable portion related to employees. Both of these options are based on your expenditure on all meal entertainment for all people during the FBT year.

Important considerations

- *Recordkeeping:* It's essential to maintain accurate records of all entertainment expenses, including costs, recipients and the calculation methods you've used. This documentation supports your FBT calculations and ensures compliance.
- *Tax deductions and GST credits:* Generally, if your event is exempt from FBT, you cannot claim income tax deductions or GST credits for the associated costs. This is important to keep in mind when budgeting for your celebrations.
- *Gifts to clients:* If you're giving gifts to clients, it's important to note that these are typically not subject to FBT. However, you may be able to claim a tax deduction for such gifts, provided they aren't classified as entertainment.

Managing your business's tax debts

Facing a tax bill is a common challenge for many Australian businesses, and the ATO has recently shifted to a more active approach to debt recovery. However, this doesn't mean they're out to get you. The ATO's primary goal is to work with businesses to manage and clear tax debts effectively.

You or your tax agent can review your income tax assessment notices or use the ATO's online services to check your current tax debt. You can also contact the ATO directly by phoning 13 28 66 (the business enquiries line).

If you find yourself unable to settle your tax debt in full by the due date, don't panic. The ATO offers several repayment options, including:

- *Self-service payment plans:* For debts under $100,000, you can set up a plan online. This option is available if you don't already have an active plan for the same debt and can cover the amount within two years.
- *Proposing a payment plan:* For larger debts or more complex situations, you can propose a tailored payment plan. The ATO provides tools like the Payment Plan Estimator and Business Viability Assessment Tool to help you create a realistic proposal.

Remember, entering into a payment plan means committing to paying future tax obligations on time.

When proposing a payment plan, it's essential to accurately assess your capacity to pay. The ATO will require specific information depending on your business structure. This may include income sources, expenses, and cash flow information for the past three months.

It's important to note that the general interest charge (GIC) applies to unpaid tax debts. This rate is currently 11.38% per annum. The government has also recently announced plans to make GIC non-tax-deductible, which would increase the effective cost of unpaid tax debts.

The key to managing your tax debt successfully is proactive communication. If you're experiencing difficulties, don't wait for the ATO to contact you. Reach out to the ATO directly, or to your registered tax agent, as soon as possible. By engaging early and honestly, you can avoid more serious potential consequences like director penalty notices, garnishee notices or having your tax debt disclosed to credit reporting bureaus.

Spouse contribution splitting: a strategic approach to retirement planning

As retirement approaches, couples often discover a significant imbalance in their superannuation accounts. This disparity can become crucial when planning for retirement, and addressing it proactively can be beneficial for various retirement strategies.

Your individual total super balance as of 30 June each year impacts your ability to implement various super strategies in the following financial year. Key strategies where your total superannuation balance (TSB) is a condition of eligibility include:

- making non-concessional contributions when your TSB is below $1.9 million;
- utilising carry-forward provisions for large concessional contributions when your TSB is below $500,000; and
- claiming tax deductions for personal contributions at ages 67–74 when your TSB is below $300,000.

When planning for retirement, the Age Pension is a consideration for many. The asset test only includes superannuation for individuals of pension age. If there's a significant age difference between spouses, directing more super to the younger spouse could potentially maximise Age Pension entitlement at retirement.

Spouse contribution splitting allows you to transfer up to 85% of your annual concessional contributions to your spouse's super account.

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Key points:

- eligible contributions include superannuation guarantee, salary sacrifice and tax-deductible personal contributions;
- the maximum annual split is generally $25,500 (85% of the $30,000 concessional contributions cap for individuals);
- only contributions from the previous financial year may be split;
- the receiving spouse must be aged under 65, or 60–64 and not retired;
- the split is considered a rollover and doesn't affect the receiving spouse's contribution caps.

Check if your fund offers spouse contribution splitting, as it's not mandatory for all funds.

Apply for contribution splitting after the end of the financial year in which the contribution was made. If you roll over or withdraw your entire super balance before the financial year's end, you can apply to split the contributions within that same year.

Spouse contribution splitting can help couples equalise their superannuation balances and optimise retirement outcomes. Consider your unique circumstances and seek professional advice to ensure this approach aligns with your long-term financial goals.

Super, KiwiSaver and the Trans-Tasman Retirement Savings Portability Scheme

If you're thinking of making a permanent move between New Zealand and Australia, what do you do about your superannuation fund or KiwiSaver scheme? Under the Trans-Tasman Retirement Savings Portability Scheme, retirement savings can be transferred between Australia and New Zealand.

It's important to note that the scheme is *voluntary* – for individuals, Australian superannuation funds and KiwiSaver scheme providers. Check with your Australian super fund or your New Zealand KiwiSaver scheme provider to confirm that they participate. Only APRA-regulated complying super funds and NZ KiwiSaver scheme providers can participate in the transfers, and not all super funds will accept KiwiSaver transfers.

Transfers from Australia to New Zealand

- *Eligibility:* You must be aged under 65 (the current eligibility age for NZ super) and provide evidence of permanent emigration to NZ.
- *What you can transfer:* Your entire balance can be transferred from a complying APRA-regulated super fund; you may also be able to transfer ATO-held unclaimed super money. Exclusions apply for self managed super funds (SMSFs) and certain interests.
- *Where you can transfer:* To any participating KiwiSaver scheme.
- *Contribution caps:* There's no limit on how much you can transfer, as the NZ system doesn't have contribution caps.
- *Tax on transfers:* A transfer from your super fund to a KiwiSaver scheme is not taxed, and withdrawals are tax-free once you are legally allowed to access them. Check for any other possible NZ tax implications with your financial advisor.
- *Access to funds*: Transferred Australian savings can't be used to buy your first home, and can't be transferred to a third country if you move again. Funds are held in two parts – you can access the Australian component when you reach age 60 and are retired; for the NZ component you'll need to reach the NZ retirement age (currently 65).
- *Moving back to Australia:* If you decide to move back, you'll need to find a fund that will accept transfers from a KiwiSaver scheme and be able to demonstrate which savings components previously counted toward your non-concessional contributions cap and the tax-free and taxable components of your savings so they keep that status. If you don't provide the information, you may have to pay excess contributions tax or additional tax.

Transfers from New Zealand to Australia

- *Eligibility:* You must be aged under 75 and provide evidence of permanent emigration to Australia.
- *What you can transfer:* Your entire KiwiSaver scheme balance can be transferred.
- *Where you can transfer:* To any Australian APRA-regulated complying super accepting KiwiSaver transfers. You can't make a transfer to an SMSF.
- *Contribution caps:* NZ-sourced savings are treated as non-concessional contributions and are subject to the non-concessional cap. Contributions over the cap might result in excess non-concessional contributions and you might need to release an amount or pay extra tax. Your total superannuation balance also impacts what you can contribute.
- *Tax on transfers:* Transfers from an NZ KiwiSaver scheme to an Australian super fund are not taxed. Withdrawals are tax-free in retirement once conditions of release are met.
- *Access to funds*: KiwiSaver scheme savings can't be transferred to an SMSF, and they can't be transferred to a third country if you move again. Funds will be held in 2 parts – to access the Australian component you'll need to be aged at least 60 and meet the Australian definition of retirement; for the NZ component you'll need to reach the NZ retirement age (currently 65).
- *Moving back to NZ:* If you decide to move back, you'll need to find a fund that will accept transfers from an Australian super fund. The rules for transferring super funds to KiwiSaver will apply.

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