A few notes for the new financial year

As difficult as it is to believe, the start of a new financial year is just around the corner. It feels as though we just turned over the calendar year to January, and now we're already half way through! As always, there are few changes coming in July that are worth noting, especially for those in business and people drawing a pension from superannuation.

Superannuation Guarantee increase to 11%
The Superannuation Guarantee (SG) percentage is set to increase on 1st July to 11%, up from the current rate of 10.5%. This is the compulsory rate at which an employer must pay superannuation for their employees. In the absence of any other increases to remuneration, it means an extra 0.5% increase in employment costs for the coming year. Naturally however, for most employers, the cost of employing people is likely to increase by significantly more than that due to higher award rates that also take effect in the new financial year, along with more general inflationary pressures. With that being said, SG payments are by definition compulsory, so please make sure that your software and other relevant payroll systems are updated to reflect this change.

Please note too that the new rate applies to the first ***pay run*** of the new year. It's not based on when the work is performed. So for example, if you pay your employees in the first week of July for work performed in the last two weeks of June, superannuation will still be payable at the new rate of 11%, even though the payroll period relates to June.

Instant Asset Write-off limit set at $20,000
For around three years now most businesses in Australia (those with annual turnover of less than $5 billion) have been able to claim the full purchase price of an eligible asset in the year of purchase, rather than depreciating it over a number of years. This has been possible because of a COVID relief measure known as Temporary Full Expensing. Sadly all good things must come to an end, and the recent Federal Budget did not extend the measure beyond its current expiry date of 30th June 2023. Still, if your business is considering a significant asset purchase, there is still a couple of weeks left to take advantage of this opportunity before it disappears into the sunset - subject to your circumstances, and also when the exact 'year of purchase' is, as detailed further below.

With its departure, the Instant Asset Write-off concession comes back into play. For the 2023-24 year this allows businesses with annual turnover of less than $10 million to claim the full purchase price of eligible assets costing under $20,000 in the year of purchase - far less generous than Temporary Full Expensing. The Instant Asset Write-off limit has been around for years in various forms and continued to operate alongside Temporary Full Expensing. It was just a little redundant when a separate measure existed that allowed for a no limit claim. The Federal Government has spruiked the $20,000 limit as an 'increase' to the legislated Instant Asset Write-off limit of $1,000, but in fact the last time it was as low as $1,000 was 2014. The amount has been temporarily [increased each year by successive Governments](), with the COVID emergency limit set at $150,000 (which is technically still the threshold until 30th June), and the pre-COVID limit being $30,000 back in 2019. So the new $20,000 limit, with no more full expensing at all, actually represents a reduction in the maximum amount that can be claimed in a single year.

For the purposes of both Temporary Full Expensing and the Instant Asset Write-off, 'year of purchase' means the year in which the asset is installed and ready for use. Simply committing to a purchase by, for example, paying a deposit (or even the full amount) does not mean you are eligible to make a claim. The asset must be in place and available to be used.

If your business is registered for GST the limit of $20,000 is exclusive of GST, which means the retail list price of an eligible asset may be higher in some instances. Also, please note as always that both of these measures do not create a tax saving in the long run. They simply bring forward the total claim into a single year, providing only a timing benefit.

Minimum pension drawdown rates back to pre-COVID levels
For those taking a pension from superannuation, there is a minimum amount that must be withdrawn each year, expressed as a percentage of the total superannuation balance of the member. The rates vary based on age, but historically started at 4% for those under 65 years of age, increasing to 5% for those aged 65-74. There is no maximum amount unless the person is on a transition to retirement pension.

During the COVID years however, these rates were halved. The idea was that with financial uncertainty, retirees should not be forced to withdraw as much from their super, thereby eroding their capital base, if they didn't need to. The reduced rates applied from the 2019-20 financial year, and will end on 30th June 2023. This means a return to the pre-COVID minimum pension drawdown rates from 1st July 2023.

More information, including the rates both now and post-30th June, can found on the ATO website.

If you would like more information about these measures or any other advice prior to the end of the financial year, please contact us.

Our mailing address is:
Dewings
PO Box 170
Fullarton, South Australia 5063
Australia