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News

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Sowing Efficiency, Reaping Rewards: AI's Roots In Accounting & Agriculture

In an era marked by relentless technological advancement, the integration of AI and technology has become paramount in revolutionising various industries, notably accounting and agriculture.

These sectors, seemingly distinct in nature, share a common objective: the pursuit of efficiency. As such, leveraging AI and technology in these domains promises transformative benefits, heralding a new era of productivity and innovation.

The accounting industry, traditionally reliant on manual processes and tedious paperwork, stands to gain immensely from embracing AI-powered solutions.

Automation tools equipped with machine learning algorithms can streamline mundane tasks such as data entry, reconciliation, and auditing, allowing accountants to focus on higher-value activities like strategic analysis and client advisory services.

Additionally, AI-driven predictive analytics offer valuable insights into financial trends and patterns, empowering businesses to make informed decisions and mitigate risks effectively. Similarly, the agricultural sector, facing escalating challenges amid growing global demand and environmental concerns, is turning to technology to enhance productivity and sustainability. From precision farming and drone surveillance to smart irrigation systems and crop monitoring apps, AI-enabled technology is revolutionising traditional agricultural practices.

By harnessing big data analytics and IoT devices, farmers can optimise resource allocation, minimise waste, and maximise yields, thereby ensuring food security while minimising environmental impact.

However, the adoption of AI and technology in these industries is not without its challenges. Concerns regarding data privacy, cybersecurity, and job displacement loom large, necessitating robust regulatory frameworks and ethical guidelines to safeguard against potential risks.

Moreover, ensuring equitable access to these innovations remains imperative to prevent widening disparities between tech-savvy enterprises and smaller players.

Nevertheless, the potential benefits far outweigh the challenges, and concerted efforts must be made to harness the full potential of AI and technology in accounting and agriculture. Collaboration between industry stakeholders, policymakers, and technology developers is crucial to foster innovation, address regulatory concerns, and promote responsible deployment of AI-driven solutions.

The convergence of AI and technology represents a paradigm shift in both the accounting and agriculture industries, offering unprecedented opportunities to enhance efficiency, productivity, and sustainability. By embracing these innovations with foresight and responsibility, businesses and policymakers can chart a course towards a future where technology serves as a catalyst for positive change, driving economic growth and societal well-being.

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General

Carbon Reporting: What Will It Mean For Small Business?

With decarbonisation gathering momentum around the world, and the federal government's target of achieving "net zero by 2050", legislation has been passed requiring large entities to report their carbon emissions.

By 2027-2028, all large Australian entities are required to disclose sustainability-related financial disclosures in accordance with the following timeframes:

Disclosure period start date	Entity threshold (meeting 2 of 3 criteria)
1/7/2024 (Group 1)	Revenue $500m+ Gross assets $1b+ 500+ employees
1/7/2026 (Group 2)	Revenue $200m+ Gross assets $500m+ 250+ employees
1/7/2027 (Group 3)	Revenue $50m+ Gross assets $25m+ 100+ employees

> Whilst such reporting can be a large undertaking, there is software and tools available to assist.

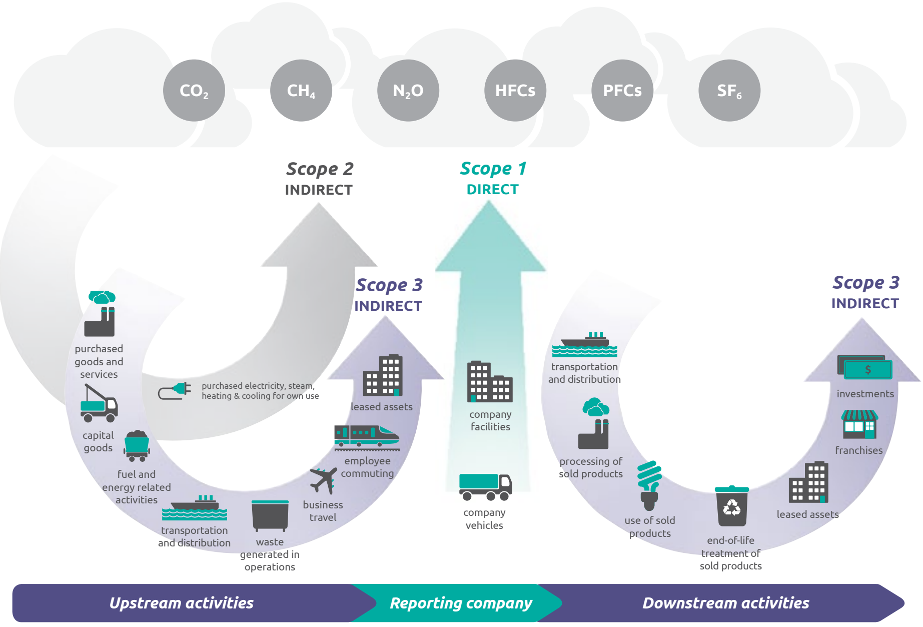
These disclosures relate to the following types of emissions. With Scope 3 emissions required to be reported from the second year of reporting.

- Scope 1 emissions – Direct emissions from the business operations, those under control of the entity e.g. fuel, gas, refrigerants
- Scope 2 emissions – Indirect emissions from purchased electricity, steam, heat and/or cooling
- Scope 3 emissions – Indirect emissions from suppliers of goods and services (upstream activities) and from customers (downstream activities).

Scope 3 is where smaller businesses come into the fold. Whist the mandated reporting obligations do not apply to them (at this stage), those that supply or service the larger entities will be required to report their carbon emission details to them, so they can meet their disclosure requirements. There are instances of large businesses already requiring this additional reporting of their suppliers.

Whilst such reporting can be a large undertaking, there is software and tools available to assist. If you are unsure how climate reporting will affect you and your business, or need assistance with any of the following, please contact our office.

- Carbon footprint calculations or mandatory climate-related disclosures
- Carbon emission reduction strategies
- Sustainability and carbon reporting
- Developing your sustainability strategy.


CO_2
CH_4
N_2O
HFCs
PFCs
SF_6
Scope 2
INDIRECT
Scope 1
DIRECT
Scope 3
INDIRECT
Scope 3
INDIRECT
purchased goods and services
capital goods
fuel and energy related activities
transportation and distribution
waste generated in operations
business travel
employee commuting
leased assets
purchased electricity, steam, heating & cooling for own use
company facilities
company vehicles
transportation and distribution
processing of sold products
use of sold products
end-of-life treatment of sold products
leased assets
franchises
investments
Upstream activities
Reporting company
Downstream activities

Are You a Small Business? Depends...

Generally, the lower the turnover, the more concessions available.

Whilst the term "small business" should be easily defined, the Tax Office assesses it differently depending on the tax concession in question.

The small business entity test is built off two main criteria, are you carrying on a business and is your aggregated turnover less than the maximum allowable amount?

Carrying on a business is described as completing a set of repeated activities for the purpose of making a profit. The entities aggregated turnover is calculated as its annual turnover plus the turnover of any related entities, excluding any inter entity income.

The level of aggregated turnover will determine what tax concessions can be applied to the business and its associates. Generally, the lower the turnover, the more concessions available.

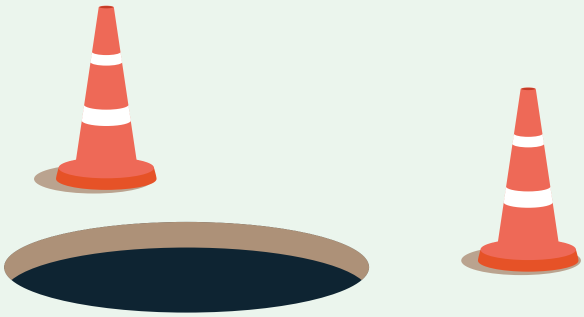
Right is a summary of the tax concessions available to "Small Business Entities"(SBEs), and the differing aggregated turnover thresholds.

Unfortunately, while some entities may be considered "small businesses" in some regards, they might not be small enough to be eligible for the more generous tax concessions.

Tax Concession	Aggregated Turnover	Tax Implications
SBE Capital Gains 15 Year Exemption	<$2 million	Total tax exemption on capital gain for active assets held for >15 Years
SBE Capital Gains 50% Active Asset Reduction	<$2 million	Additional 505 discount on assessable capital gains
SBE Capital Gains Retirement Exemption	<$2 million	Tax exemption on capital gains up to a lifetime limit of $500,000
SBE Capital Gains Small Business Rollover	<$2 million	Defers tax on capital gain until replacement active asset is sold
SBE Income Tax Offset	<$5 million	Capital Gains 15 Year Exempt
SBE Restructure Roll-over	<$10 million	No CGT implications on restructure of business
SBE Simplified Depreciation Rules	<$10 million	Access to small business depreciation pools and instant asset write off
SBE Technology Investment Boost	<$50 million	Additional 20% tax deduction up to $20,000
SBE Skills and Training Boost	<$50 million	Additional 20% tax deduction up to $20,000
Simplified Trading Stock Rules	<$50 million	Allows for estimated stock on hand value
Base Rate Entity	<$50 million	Reduced company tax rate of 25%, rather than 30%

ATO Guidance

Rental Properties Traps and Pitfalls



The ATO has recently advised that they will be closely reviewing 2024 tax returns with unusual rental property claims. It is therefore timely to review the tax traps and pitfalls to be wary of property investing.

Apportionment of rental income and deductions

Where a rental property is jointly owned by two or more people, the income and deductions are split according to the owners' respective shares of the legal ownership of the property. Joint tenancy between spouses is the most common situation, meaning a 50:50 split. In those situations there is no legal basis for the spouse with the higher marginal tax rate claiming a disproportionate share of the deductions for mortgage interest, rates, land tax, insurances, repairs and maintenance in their own return – even where they fund the payments from their own bank account.

Private use

Interest and other outgoings are not deductible to the extent the property was used for private purposes e.g. while you or a relative or friend lived in it for no or nominal consideration.

Interest deductions

Where the acquisition of a rental property has been funded by way of debt, the associated interest costs will be deductible. However, where a loan (or part of a loan) that is secured over a rental property is used for private purposes, such as buying a car or renovating the house you live in, interest can only be claimed on a pro rata basis. Care needs to be taken when refinancing debt to ensure the tax deductibility of interest attributable to the rental property is not jeopardised.

Repairs vs improvements

The cost of genuine repairs to fix something that is broken or worn down due to wear and tear that happened while the property was tenanted is immediately deductible. Work that involves replacing the entirety of an asset would be a capital improvement and is deductible at 2.5%.

For example, your rental property might have an original 1960s bathroom, with leaky pipes and tiles that are broken or coming away. Fixing the leaks and replacing the tiles (even with something a little more modern) would fall on the repairs side of the line and be deductible outright. On the other hand, gutting the whole bathroom and replacing all the fittings would be a capital upgrade and deductible at 2.5% per annum.

Initial repairs

Any deductions for repairs to your rental property have to be attributable to the time you were earning rental income from the property. If you buy a property that requires initial repairs before you can put tenants in, the cost of those repairs will not be immediately deductible. You should still keep track of the amount you have spent on initial repairs as it will be relevant when the property is sold.

Certain initial repair works may be unavoidable, but defer non-urgent work if possible. So if your newly acquired rental property is in need of a coat of paint, maybe wait two or three years before contacting a painter.

Travel costs

The cost of traveling to visit your rental property to attend to things is no longer deductible. This matters especially to investors who have bought property interstate. There is an exception where an investor is in the business of letting rental properties – but very few are.

Review the tax traps and pitfalls to be wary of for property investors.

Depreciation

Second-hand depreciating assets acquired as part of the rental property can no longer be written off against rental income, again unless you are in the business of letting rental properties. But the unclaimed depreciation can trigger off a capital loss on the eventual sale of the property. It's important to keep track of these amounts in the meantime.

Cash jobs

It's not unheard of for the tradesperson offering the best quote for a repair or maintenance job on your rental property to ask for payment in cash. Before rushing in to accept such a quote, just make sure they're not keeping the job completely off the books and that you'll still be getting an invoice that satisfies the substantiation rules. Otherwise you could end up blowing your cost savings (and maybe more) because you won't be entitled to a tax deduction for the cash you've handed over.

What your tradie does in relation to his tax affairs is a matter between them and the Commissioner, but it should not cost you a tax deduction. Always insist on getting an invoice.

Holiday homes

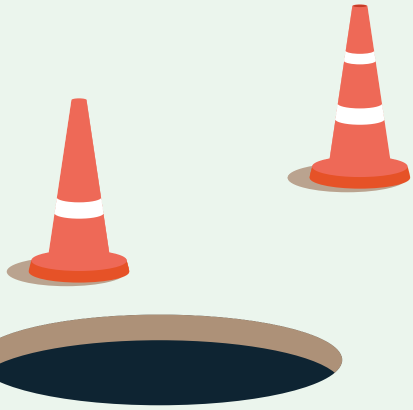
Own a holiday home? Great for family holidays, but if the property is also offered for short-term rentals there are a few wrinkles you need to be aware of.

The main one is that the property needs to be genuinely available for rent, and not just at times when demand is seasonally low. So if you book the place out for yourself or family and friends for all or most of the school holidays and other peak times, the ATO will take the view that you're not seriously trying to make a profit from any rental income you receive and will limit your deductions for mortgage interest, rates and land taxes, repairs and maintenance, insurance etc to the amount of your rental income. Likewise if you only charge "mates' rates" when family and friends come to stay.

Some holiday house owners have even pretended to market their property by demanding excessive rents or imposing unrealistic conditions for short-term stays (eg. references, no pets, no kids). That is not likely to pass muster either.

Some limited personal use of the property is acceptable to the ATO, as long as you're genuinely trying to turn a profit. Where this is the case, the deductions claimed need to be pro-rated to reflect the time the property was let or was genuinely available for rent.

Disallowed deductions may instead reduce the tax on the sale of the property.



Superannuation

Don’t Lose Your Superannuation To Scammers

Don’t be another victim. Be on the lookout for scammers who call you about your superannuation!

ASIC on the lookout

The number of cold callers is on the rise. The Australian Securities and Investments Commission (ASIC) are urging people to hang up on cold callers and scroll past social media click bait that may be offering to help you compare and switch superannuation funds.

How cold callers operate

In many cases, cold callers will convince you to buy a product or sign up to a service. This could relate to any financial investment, product or service, but there has been a focus on scammers approaching people about their superannuation.

A typical superannuation cold calling experience includes:

- A call from someone you don’t know to see if you ‘qualify’ for a free review of your superannuation or investment opportunity.
- Contact from a cold caller who convinces you your existing superannuation fund is not performing.
- A statement of advice (SOA) prepared by a financial advice firm the cold caller has an existing arrangement with.
- Cookie cutter’ advice that is expensive, often unnecessary, doesn’t consider your individual needs, and may leave you in a worse position.

The cold caller may benefit by getting a cut of the financial advice fees, which are deducted from your superannuation balance. In the end, you could end up paying for advice that may not even be right for you.

What to do

If you receive a call from a number you don’t know, ignore it. Otherwise, if you are contacted by a cold caller and answer the call, just hang up. Similarly if you receive a SMS message from a number you don’t know, ignore it and do not click on any links.

If you have given personal information about your superannuation or banking details to a cold caller, contact your existing superannuation fund or bank immediately and ask them to not allow any withdrawals. You can also block a cold caller’s number and limit the calls you receive by joining the Do Not Call register.

Avoid social media clickbait

You may have also come across some posts on your social media feed which question whether your superannuation is performing or encouraging you to compare your superannuation fund. If so, take care as some businesses try to grab your attention on social media before they try to sell you their services.

Beware of other sophisticated scammers

There are also reports that many Australians have fallen victim to sophisticated scammers who use technologies that use your bank’s legitimate phone number and texts on the same thread as genuine messages. Often, people are losing their money through no fault of their own as scammers either hack or manipulate a bank or other institution’s systems which will often see victims inadvertently providing information, such as a passcode, to the scammer. Be vigilant and never provide personal information, passwords or pass codes to anyone over the phone.

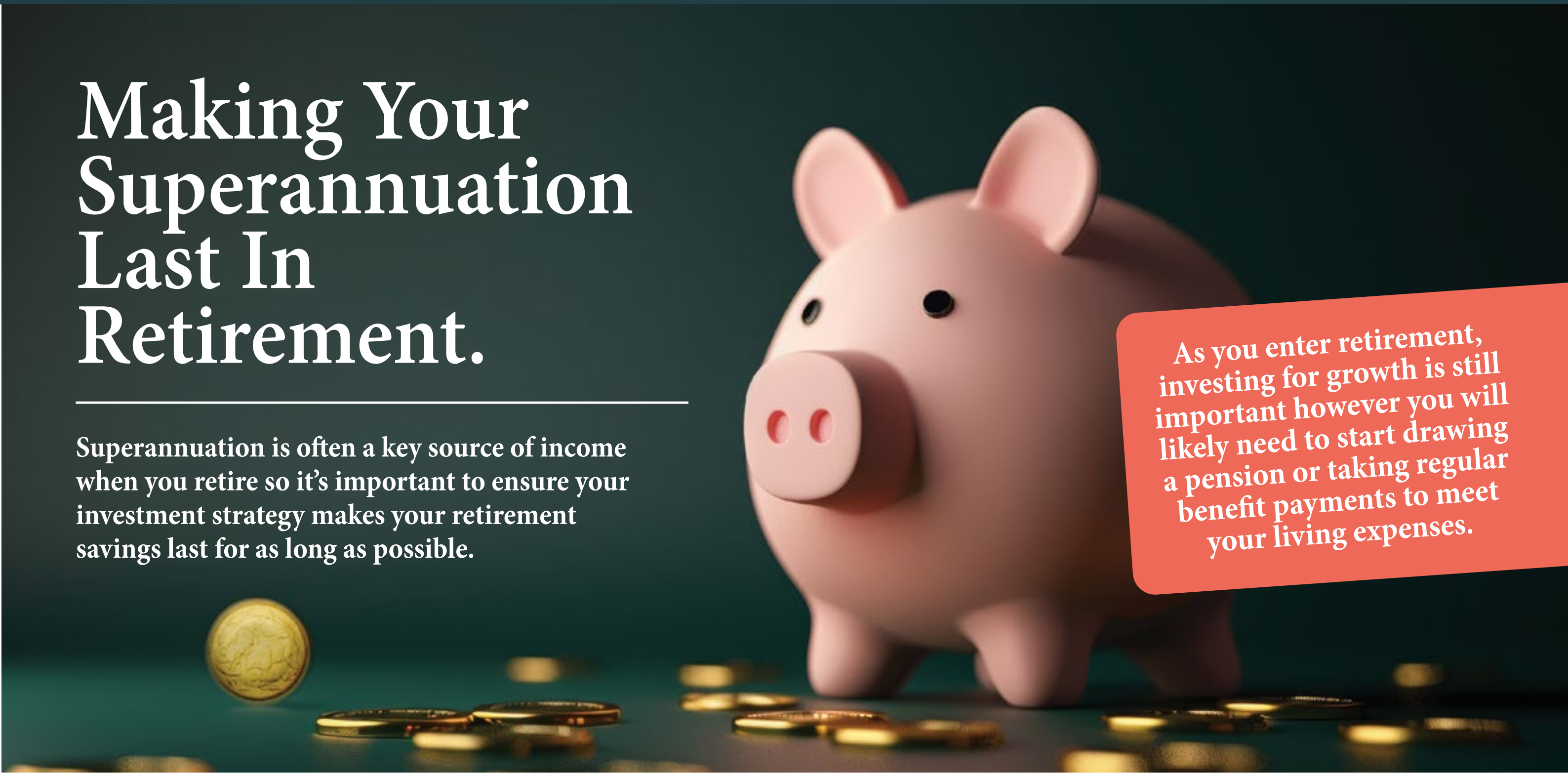
Beware of scammers

As the saying goes, if it sounds too good to be true it probably is. Avoid pushy sales tactics such as cold calling or social media click bait that rushes your decision-making. If you’re thinking about making changes to your superannuation, you can always start by doing your own research, contact your existing superannuation fund, and speaking to a licenced advisor.

As the saying goes, if it sounds too good to be true it probably is.

Making Your Superannuation Last In Retirement.

Superannuation is often a key source of income when you retire so it's important to ensure your investment strategy makes your retirement savings last for as long as possible.



As you enter retirement, investing for growth is still important however you will likely need to start drawing a pension or taking regular benefit payments to meet your living expenses.

Shifting investment strategy objectives

As you approach retirement, your investment strategy objectives may start to shift. In your younger years, the main aim of superannuation is generally accumulation-focussed, which is all about growing as big a balance as possible, making regular contributions and investing for growth over the long-term.

As you enter retirement, investing for growth is still important however you will likely need to start drawing a pension or taking regular benefit payments to meet your living expenses. As you will have cashflows coming out of your fund and you will be drawing down on your assets, you'll need to ensure you have enough liquidity in your fund to make those payments.

You also need to ensure you're protected against drawing down on your assets at times of poor investment markets where you could end up locking in those losses. This timing impact is also known as 'sequencing risk'. As such, the liquidity and sequencing risk impact on your fund's investment strategy must be considered.

What investment strategy should I consider?

It is important that your superannuation portfolio has adequate exposure to growth assets. By the time most individuals reach 65 years of age, they are now expected to live for another two decades. This means a person retiring at say age 60 must stretch their finances for, on average, another 30+ years. It's important to note this is merely an average; many will live far longer than two decades from their 65th birthday.

But assuming you aren't drawing down excessive amounts and you will retain your funds in superannuation throughout your retirement, then taking a slightly more aggressive approach should result in you obtaining higher long-term returns and an increase in your portfolio value overtime.

That said, it does come down to your risk profile. The key message here is leaving all your retirement savings in a 100% conservative strategy (ie, cash and term deposits only) may mean that your nest egg may not last you very long.

How long will my super last?

Although investment market returns and inflation are uncertain and we don't know how long we are going to live, retirement modelling can factor in these future uncertainties to help you determine the likelihood of achieving your objectives, which will also test whether your investment strategy is likely to be successful.

A financial adviser has access to such sophisticated financial modelling systems, however other simpler retirement calculators which can be found online (such as from the Moneysmart.gov.au website) can also give you an idea of how long your savings may last and how investment returns may affect your superannuation and/or pension balance.

The last word

There will be periods where the markets will be volatile which will see your retirement savings increase and decrease in value. During these times if you panic and switch back to a more conservative option, such as cash, you may do more harm to your superannuation balance. So if you're approaching retirement and need help with your retirement investment strategy, it may be worthwhile obtaining advice from a financial adviser who can help you stress test your risk profile and help choose appropriate investments for your superannuation to make your savings last in retirement.

Gerrit Lombard. RJC Evans & Co Financial Planning

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Family Companies And The Tax Traps

Do you take loans and dividends from a family company?

If you own a family company, then how you receive and account for any payments made from the company to you (or your associates – for example, your spouse) can have varying legal and tax consequences. This is simply because any payment from a company (other than a return of the original capital) is, in most cases, deemed a dividend in the hands of the recipient – however it may otherwise be classified.

In particular, if you arrange for your company to provide you (or your associate) a loan, then it will be deemed to be a taxable dividend (without tax/franking credits) – unless you comply with the requirements for it to be a "complying loan" (which includes imposing a market rate of interest on it). Likewise, any forgiveness by the company of the loan made to you will be treated as a deemed dividend in your hands also – again unless certain requirements are met.

This area of treating loans by the company to a shareholder (or associate) as a deemed "Div 7A dividend" is a fundamental issue in tax law – and has been for many, many years.

Importantly, it also extends to the case where your family trust makes a resolution to distribute trust income to a beneficiary company (usually a so-called "bucket company") and the amount is never actually paid to the company but is kept in the trust.

In this case, the ATO treats this as a deemed dividend made by the company to the trust – albeit, it is a hot button issue in tax at the moment as to whether the ATO is correct in its approach to this.

With family companies there is also the issue of loans made by shareholders or directors to the company and any subsequent forgiveness of them. On the face of it a complete forgiveness of the debt owed without any repayment of the loan should trigger a capital loss in the hands of the shareholder or director.

However, the tax laws are more sophisticated than this – and a capital loss will only arise to the extent that the debt is incapable of being repaid by the company. There is also an argument as to whether any capital loss should be available at all even if the company could not repay the debt.

Likewise, there will be consequences for the company. While no immediate taxable gain will arise to the company from the release of its obligation to repay the debt, there may be a restriction on its ability to claim tax deductions in the future for such things as carry forward tax losses and/or depreciation.

Just because you own the company does not mean you can treat it as your own private bank to make withdrawals from it as you please or make loans to it (and forgive them) – without considering the serious tax consequences of such actions.

There will always be tax consequences, which our office can guide you through.

Succession Planning For Family Business

For most family businesses, as well as private groups, succession planning involves considerations around the eventual sale of your business, or the passing of control of it to other family members when you retire. Depending on your circumstances, this may include realising assets and making other changes to ownership, but is certainly tied up with retirement planning and estate planning.

Adopting a strategy with guidance from specialist advisers can ensure tax issues can be managed before they present a problem. Though succession planning may not have an immediate tax impact, it's important to include tax considerations in your plan. This will avoid unexpected tax issues arising down the track when you implement your plan.

Transferring control of your business to family members may involve restructuring your business operations and/or asset holding structures – changes to share structure, changes to the trustee and appointor of a trust, changes to partnership structures – or transferring assets to family members via the creation of trusts or other entities. These sorts of events can have legal and tax implications that need to be carefully considered. A common assumption with business owners is that the transaction being considered is a single "sale" — that of the business — whereas it often is many deemed sales of individual assets that need to be accounted for, possibly with different tax outcomes.

For example, when you dispose of or transfer assets there will likely be capital gains tax (CGT), GST and stamp duty consequences. By utilising trusts, a deemed transfer and sale can often be avoided by simply changing control of the trust.

Where pre-CGT assets are involved, you should also understand and document the tax consequences for you and your beneficiaries. Issues for consideration include whether changes in legal structure affect the pre-CGT status of the assets or shares and the availability of carried-forward losses.

Any significant changes to your legal structures or business operations should be fully documented. Ensure information on your assets (such as acquisition dates and cost base) is properly recorded so that any subsequent disposals of the assets can be taxed correctly.

Whatever strategies are used to transfer your business and/or assets onto the next generation, make sure your plans are documented and you seek professional guidance.