Your

Knowledge

August 2022

We are here to help, contact us today:

Phone 02 49366 185
Web anovaca.com
Email practice@anovaca.com

Anova

IT'S NOT EASY BEING GREEN 1
Impacted industries 2

FBT-FREE ELECTRIC CARS 3
How the EV FBT exemption will work 3
Can I salary sacrifice an electric car? 4
Who cannot access the FBT exemption 4
EV State and Territory Tax Concessions 4

CAN I CLAIM MY CRYPTO LOSSES? 5

HOW HIGH WILL INTEREST RATES GO? 6

QUOTE OF THE MONTH 6

Note: The material and contents provided in this publication are informative in nature only. It is not intended to be advice and you should not act specifically on the basis of this information alone. If expert assistance is required, professional advice should be obtained.

It's Not Easy Being Green

Climate change featured heavily during the election and now the Albanese Government is putting into place some of the promises it made. We look at the current state of play and the likely impact.

The Government's Climate Change Bill passed the House of Representatives in early August and is now before the Senate Environment and Communications Legislation Committee for review. But what impact does the legislation have on business and consumers in Australia?

Under the Paris Agreement, a legally binding international treaty, Australia and 192 other parties committed to substantially reduce global greenhouse gas emissions to limit the global temperature increase in this century to 2 degrees Celsius while pursuing efforts to limit the increase even further to 1.5 degrees. At this level, the more extreme impacts of climate change - floods, heatwaves, rising sea levels, threats to food production - can be arrested. As part of this commitment, the parties are required to communicate their emissions reduction ambitions through a Nationally Determined Contribution (NDC). On 16 June 2022, Australia communicated its updated NDC to the UN, confirming Australia's commitment to achieve net zero emissions by 2050, and a new, increased target of 43% below 2005 levels by 2030 (a 15% increase on the previous target). The Climate Change Bill enshrines these emission targets into legislation.

The Bill itself sets an accountability framework for climate targets but does not introduce mechanisms to cut emissions.

Continued over…

Continued from page 1…

Impacted industries

The energy sector is at the heart of climate change producing around three-quarters of global greenhouse gas emissions. In Australia, the CSIRO says energy contributes approximately 33.6% of all emissions, with a further 20.54% from stationary energy (from manufacturing, mining, residential and commercial fuel use), transport 17.6%, and agriculture 14.6%. The future of the energy industry is also at the crux of the Government Powering Australia policy.

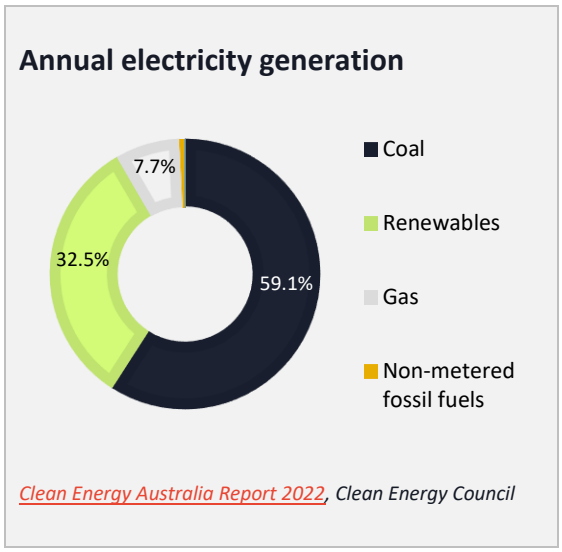
Emissions reduction is not just a social obligation but a necessity as investment tilts towards lower emission suppliers. As an example, the 2022-23 Federal Budget committed a $120 billion 10-year infrastructure pipeline. The June 2022 Business Council of Australia *Infrastructure in a world moving to net zero* report provides a series of recommendations to address the way in which Government invests including the adoption of low carbon materials on public projects and options for reducing emissions during construction, understanding the whole of life emissions impact of infrastructure projects and potentially adopting the UK style PAS2080 standard on carbon management infrastructure, and a shift in procurement to lower carbon supply chains. If these considerations have not made it into business production and supply chain planning, they will soon.

Amongst other initiatives the Government have committed to:

- $20bn investment in Australia's electricity grid to accelerate the decarbonisation.
- An additional $300m to deliver community batteries and solar banks across Australia.
- Up to $3bn investment in the new National Reconstruction Fund to support renewables manufacturing and low emissions technologies.
- Powering the Regions Fund to support the development of new clean energy industries and the decarbonisation priorities of existing industry.
- Double existing investment in electric vehicle charging and establish hydrogen refuelling infrastructure (to $500m).
- Review the effectiveness of the Emissions Reduction Fund that provides businesses with the opportunity to earn Australian carbon credit units for every tonne of carbon dioxide equivalent a business stores or avoids emitting through adopting new practices and technologies.
- New standardised and internationally aligned reporting requirements for climate risks and opportunities for large businesses.
- Reduce the emissions of Commonwealth Government agencies to net zero by 2030.

In essence, business can expect directed funding for co-investment in emission reduction technology, Government spending to be through the lens of the renewed emissions targets, and for new funding opportunities to advance low emission technology.

But emissions reduction is not just about industry. Land use change can have a significant impact on emissions through reductions. For example, a reduction in forest clearing in 2020 reduced emissions by 4.9%. One initiative needs to go hand in hand with the other.



Renewables increased 5% on 2020 contributed by small scale solar, and large scale solar and wind farms.

FBT-free Electric Cars

New legislation before Parliament, if enacted, will make zero or low emission vehicles FBT-free. We explore who can access the concession and how.

Electric vehicles (EV) represent just under 2% of the new car market in Australia but it is a rapidly growing sector with a 62.3% jump in new EV registrations between 2020 and 2021.

Making EVs FBT-free is just the first step in the Government's plan to make zero and low emission vehicles the car of choice for Australians, focussing on affordability and overcoming "range anxiety" by:

- Cutting import tariffs
- Placing EV fast chargers once every 150 kilometres on the nation's highways
- Creating a national Hydrogen Highways refuelling network, to deliver stations on Australia's busiest freight routes
- Converting the Commonwealth fleet to 75% no-emissions vehicles

It is on this last point, fleet cars, that the FBT exemption on EVs is targeted. In Australia, business account for around 40% of light vehicle sales according to a research report by Griffith and Monash Universities. However, EV sales to business fleets comprised a mere 0.08% of the market in 2020. The Government can control what it purchases and has committed to converting its fleet to no-emission vehicles, but for the private sector, there is a wide gap between the total cost of ownership of EVs and traditional combustion engine vehicles. It's more expensive overall and the Government is looking to reduce that impediment through the FBT system.

How the EV FBT exemption will work

The proposed FBT exemption is intended to apply to cars provided by an employer to an employee under the following conditions:

Low and zero emission cars	• Battery electric vehicles; • Hydrogen fuel cell electric vehicles; and • Plug-in hybrid electric vehicles. Be careful here because this doesn't include all hybrid vehicles. To qualify the car needs to be 'plug-in'. A car that has an internal combustion engine will not meet requirements unless it is able to be fuelled by a battery that can be recharged by an off-vehicle power source.
The car was first held and used on or after 1 July 2022	Where the car is first held and used on or after 1 July 2022. Provided the conditions of the exemption are met, an electric car that was ordered prior to 1 July 2022, but was not delivered until after 1 July 2022 would be eligible for the exemption (even if an employer acquired legal title to the car before 1 July 2022). However, a car delivered to you prior to 1 July 2022 would not qualify. A second-hand electric car may qualify for the exemption, provided that the car was first purchased new on or after 1 July 2022.

Value below luxury car tax threshold for fuel efficient vehicles	The value of the car at the first retail sale must be below the luxury car tax threshold ($84,916 in 2022-23) for fuel efficient vehicles. The luxury car tax threshold generally includes GST and customs duty but excludes other items such as service plans, extended warranties, stamp duty and registration.

If an electric car qualifies for the FBT exemption, then associated benefits relating to running the car for the period the car fringe benefit is provided, can also be exempt from FBT.

Government modelling states that if an EV valued at about $50,000 is provided by an employer through this arrangement, the FBT exemption would save the employer up to $9,000 a year.

While the measure provides an exemption from FBT, the value of that fringe benefit is still taken into account in determining the reportable fringe benefits amount of the employee. That is, the value of the benefit is reported on the employee's income statement. While income tax is not paid on this amount, it is used to determine the employee's adjusted taxable income for a range of areas such as the Medicare levy surcharge, private health insurance rebate, employee share scheme reduction, and social security payments.

Can I salary sacrifice an electric car?

Assuming your employer agrees, and the car meets the criteria, salary packaging is an option. While some FBT concessions are not available if the benefit is provided under a salary sacrifice arrangement, the exemption for electric cars will be available. For a salary sacrifice arrangement to be effective for tax purposes, it needs to be agreed, documented, and in place **prior** to the employee earning the income that they are sacrificing.

Government modelling suggests that for individuals using a salary sacrifice arrangement to pay for a $50,000 electric vehicle, the saving would be up to $4,700 a year.

Who cannot access the FBT exemption

Your business structure makes a difference
By its nature, the FBT exemption only applies where an employer provides a car to an employee. Partners of a partnership and sole traders will not be able to access the benefits of the exemption as they are not employees of the business. When it comes to beneficiaries of a trust and shareholders of a company it will be important to determine whether the benefit will be provided to them in their capacity as an employee or director of the entity.

Exemption is limited to cars
As the FBT exemption only relates to cars, other vehicles like vans are excluded. Cars are defined as motor vehicles (including four-wheel drives) designed to carry a load less than one tonne and fewer than nine passengers.

EV State and Territory Tax Concessions

The Federal Government is not alone in using concessions to encourage electric vehicle ownership.

ACT
The ACT Government offers a stamp duty exemption on new zero emission vehicles, and up to two years free registration for new or second hand zero emission vehicles (registered between 24 May 2021 and before 30 June 2024).

New South Wales
Reimbursement of stamp duty paid on purchases of new or used full battery electric vehicles (BEVs) and hydrogen fuel cell electric vehicles (FCEVs), with a dutiable value up to and including $78,000.

Continued over…

Northern Territory
For plug-in electric vehicles (battery and hybrid plug-in), from 1 July 2022 until 30 June 2027, access free registration for new and existing vehicles and a stamp duty concession of up to $1,500 on the first $50,000 of the car's market/sale value – 3% thereafter.

Queensland
Discounted registration duty for hybrid and electric vehicles. And, a limited $3,000 rebate for new eligible zero emission vehicles with a purchase price (dutiable value) of up to $58,000 (including GST) on or after 16 March 2022.

South Australia
A limited $3,000 subsidy and a 3-year registration exemption on eligible new battery electric and hydrogen fuel cell vehicles first registered from 28 October 2021.

Tasmania
From 1 July 2022 until 30 June 2022, no stamp duty applies to light electric or hydrogen fuel-cell motor vehicle (including motorcycles). Vehicles with an internal combustion engine do not qualify.

Victoria
A limited $3,000 subsidy is available for new eligible zero emission vehicles purchased on or after 2 May 2021. More than 20,000 subsidies are available under the program. Plus, stamp duty for 'green passenger cars' is set at the one rate regardless of value ($8.40 per $200 or part thereof).

Zero emission vehicles receive a $100 annual registration concession but are also subject to a per kilometre road user charge.

Western Australia
A $3,500 rebate on the purchase of a new zero emission, hydrogen fuel cell or battery light vehicle with a value of up to $70,000 purchased on or after 10 May 2022.

Can I claim my crypto losses?

The ATO has released updated information on claiming cryptocurrency losses and gains in your tax return.

The first point to understand is that gains and losses from crypto are only reported in your tax return when you dispose of it - you sell it, convert it to fiat currency, exchange it for another type of asset, buy something with it, etc. You cannot recognise market fluctuations or claim a loss because the value of your crypto assets changed until the loss is realised or crystallised.

Gains and losses from the disposal of cryptocurrency should be reported in your tax return in the year that the disposal occurred.

If you made a capital gain on crypto that was held as an investment, and you held the crypto for more than 12 months then you may be able to access the 50% Capital Gains Tax (CGT) discount and halve the tax you pay.

If you made a loss on the cryptocurrency (capital loss) when you disposed of it, you can generally offset the loss against capital gains you might have (unless the crypto is a personal use asset). But you can only offset capital losses against capital gains. You cannot offset these losses against other forms of income like salary and wages, unfortunately. If you don't have any capital gains to offset, you can hold the losses and carry them forward for another future year when you can use them.

If you earned income from crypto such as airdrops or staking rewards, then these also need to be reported in your tax return.

And remember, keep records of your crypto transactions. The ATO has sophisticated data matching programs in place and cryptocurrency reporting is a major area of focus.

How high will interest rates go?

The RBA lifted the cash rate to 1.85% in early August 2022. The increase comes a few weeks after Reserve Bank Governor Philip Lowe told the Australian Strategic Business Forum that "…we're going through a process now of steadily increasing interest rates, and there's more of that to come. We've got to move away from these very low levels of interest rates we had during the emergency." He went on to say that we should expect interest rates of 2.5% - how quickly we get there really depends on inflation.

> "…we should expect interest rates of 2.5% - how quickly we get there really depends on inflation."

The RBA Governor has come under increasing pressure over comments made in October 2021 suggesting that interest rates would not rise until 2024. At the time however, Australia was coming out of the Delta outbreak, wage and pricing pressure was subdued, and inflation was low. That all changed and changed dramatically. Inflation is now forecast to reach 7.75% over 2022 before trending down. We're not expected to reach the RBA's target inflation rate range of 2% to 3% until the 2023-24 financial year.

In the UK, the situation is worse with the Bank of England predicting that inflation will reach around 13% over the next few months. The UK has been heavily impacted by the war in Ukraine with the price of gas doubling, compounding pressure from post pandemic supply chain issues and price increases.

With interest rates rising, what can we expect? Deputy RBA Governor Michele Bullock recently said that Australia's household credit-to-income ratio is a relatively high 150%, increasing in an environment that enabled households to service higher levels of debt. But it is not all doom and gloom. "Strong growth in housing prices over 2021 and early 2022 has boosted asset values for many homeowners, with housing assets now comprising around half of household assets," she said. The recent downturn in house prices has only marginally eroded the large increases over recent years. Plus, households have saved around $260m since the pandemic creating a buffer for rising interest rates. This however, is a macro view of the economy at large and individual households and businesses will face different pressures depending on their individual circumstances.

For businesses, the rate increase has a twofold effect. It is not just the rate rise and the higher cost of funds in their borrowings. That by itself is significant but at this stage, if anything, it is the lesser issue. The more significant impact comes from negative consumer sentiment and the flow through effect on sales and cash flow.

- In general, your debts should not exceed around 35-40% of your assets. There will be some exceptions to this with new business start-ups and first home buyers.
- Review the cost of cash in your business, reviewing rates, and the configuration and mix of loans to ensure you are not paying more than you need to.
- If possible, avoid having private debt as well as business and investment debts. You can't get tax relief on your private debt.
- Keep an eye on debtors and don't become your customer's bank.

Quote of the month

> "Never doubt that a small group of thoughtful, committed citizens can change the world; indeed, it's the only thing that ever has."

Margaret Mead, anthropologist