



Side Hustle

Second Job Side Hustle Tax Tips

There are many benefits to having multiple streams of income. Some people invest in property. Some people grow their share portfolio. Some people start a side-hustle. From photographers, to gardeners, to pet trainers, many Australians turn their skills and hobbies into a profitable side-business to earn a little extra cash. Whichever way you start and build a second stream of income, there are things you'll need to know about your taxes so you don't run into trouble with the ATO.

Hobby or Business

It's important to know if your side-hustle is really a hobby or if you're going to actively pursue it as a business. If you intend to open a business, you'll need to register your business name and obtain an ABN (Australian Business Number). You'll also need to keep business records, have a separate bank account and obtain registrations and licenses to run your business if required. If you run a hobby, you won't have any additional tax or reporting obligations, but you won't be able to make any claims or deductions on your tax.

Business Structure

Many new businesses and side-hustles start up as a sole trader, however you may need to set up another business structure to protect your assets if you're involved in litigation. Tax structures such as companies and trusts are designed to protect your assets. If you're a sole trader, your personal assets are at risk.

Insurances

When you run a side hustle, you're open not only to litigation but to things going wrong as well. It pays to protect your side hustle with an insurance policy. There are several types of business insurances, which include property, vehicle, personal liability, workers compensation, product liability, cyber liability interruption and crime insurances. Insurances can be customised to your business needs and requirements. Running even a small side hustle opens you to a level of risk against lawsuits and personal damage. Take care to protect your assets.

Superannuation

Superannuation is an amount set aside by your employer that forms part of your wage that you receive at your preservation age. Having a side-hustle might mean you need to set some money aside and contribute to your superannuation fund for your retirement. If you make personal super contributions from your after-tax income, for example from your bank account directly to your super fund, you might be able to claim a tax deduction for your personal super contributions by passing the 10 per cent rule. You can also consider salary sacrificing your superannuation through your side hustle. This is a great way of ensuring your super grows at a reduced tax rate.

GST

Businesses that turn over a gross amount of \$75,000 will need to register to collect and pay the goods and services tax (GST). You will need to report monthly, quarterly or yearly to the Australian Taxation Office (ATO) and pay the GST you have collected after you have calculated the GST credits you can claim back on your Business Activity Statement (BAS).

Set Money Aside To Pay Your Tax

Having a profitable side-hustle might be a great way to earn extra income, but it pays to have a separate bank account to keep an eye on your cash flow and set money aside to pay your tax. Spending all of the money you earn from your side-hustle could have serious consequences at tax time, especially if you're used to having an employer that takes care of your personal income tax and super contributions for you.

Tax Incentives

There are a range of tax incentives that you might have access to when starting up your side-hustle. The instant asset write-off allows businesses to purchase capital equipment – furniture, machinery, laptops – and claim the cost as a tax deduction. From 12 March 2020 until 30 June 2020, the instant asset write-off has been increased from \$30,000 up to \$150,000 and business eligibility has been expanded to cover businesses with an aggregated turnover of less than \$500 million (up from \$50 million). There is eligibility criteria your business needs to meet in order to claim the instant asset write-off. Don't go purchasing equipment until you have spoke to a tax accountant.

A tax agent can help you work out if claiming a deduction versus depreciating your assets works better for your business.

Tax Deductions

There are a range of running costs you'll be able to claim from your side-hustle. If you're running a business from home, you'll be able to claim expenses such as:

- Phone
- Internet
- Heating
- Cooling
- Self education
- Professional services
- Advertising and marketing

If you have a dedicated home office, there are claims to be made against your rent and mortgage interest. There is potential Capital Gains Tax (CGT) on the profits made by selling your home if you do decide to claim these expenses. It's best to speak with a tax accountant who can advise your best options for claiming expenses on your tax.

When claiming tax deductions, the ATO has three golden rules:

1. You must already have incurred the expense
2. The expense must be claimed on your business expenses only
3. You must be able to back up your claim

Keeping track of your expenses is essential. There are a lot of accounting packages available and it might be worth investing to keep on top of your records. If you do have a lot of claims to make, you might consider hiring a bookkeeper. Not only will they save you time and keep your records accurate, you'll be able to claim their expense against your taxes.

ITP have helped Australian individuals and businesses for 50 years. Speak to an ITP Tax Accountant for business and tax advice. The difference could save you thousands.