

client alert | explanatory memorandum

April 2026

CURRENCY:

This issue of **Client Alert** takes into account developments up to and including 23 March 2026.

Keeping you informed about the Federal Budget

The Federal Budget is expected to be handed down on Tuesday 12 May.

The Client Alert team will, as usual, work to bring you a special Budget Extra edition that outlines the key announcements to assist you in dealing with your clients' queries. You can expect to receive it by the morning of Wednesday 13 May, after the Treasurer hands down the Budget to Parliament on Tuesday evening.

AI may be handy for simple money questions, but it's no substitute for professional advice

Artificial intelligence tools are becoming increasingly popular for answering money-related questions. While these tools can be helpful for summarising information and helping you work out what to research next, the ATO and ASIC's Moneysmart are reminding Australians that convenience doesn't equal accuracy when it comes to tax, superannuation and financial decisions.

Moneysmart has published new guidance on using AI for financial information, responding in particular to research showing that nearly one in five Gen Z Australians use AI platforms for financial guidance, and nearly two thirds of these are confident in the accuracy of financial guidance from AI platforms, despite their significant limitations.

Tax and super rules can be detailed, exceptions matter, and the right answer often depends on your own circumstances. If you act on incorrect information, the consequences can be serious.

Where AI can be useful

Publicly available general-purpose AI tools can be handy for broad, educational questions such as:

- "How does compound interest work?"
- "What does capital gains tax mean in simple terms?"
- "What is salary sacrifice?"
- "What's the difference between concessional and non-concessional super contributions?"

Used this way, AI can act as a starting point to help you understand terminology and prepare for conversations with your professional adviser.

Where extra caution's needed

The situation changes when questions shift from general information to something that sounds like personal advice. Questions like "Can I claim this expense as a tax deduction?" or "How much should I put into super this year?" depend heavily on your individual circumstances, and AI tools aren't the place to ask them.

In particular, the ATO warns that AI tools can provide false or inaccurate tax and super information, even while sounding confident and reassuring.

Why AI answers can be unreliable

There are several reasons AI-generated answers can go wrong. First, AI can simply be incorrect. The ATO specifically warns that you may receive false or inaccurate information from AI tools.

Secondly, AI's likely to miss important details that affect your specific situation. AI tools can't understand your complete financial position, objectives or risk tolerance well enough to make decisions for you.

Thirdly, AI tools aren't designed to provide regulated personal advice. Anyone providing personal financial advice must hold an Australian financial services licence, and providers giving tax advice services to retail clients for a fee must be registered with ASIC.

Protecting your privacy

You should also consider privacy when using AI tools. It's not usually possible to know how publicly available AI tools use the information you type into them, or who might see it in future, so avoid entering your Tax File Number, myGov sign-in details, bank account details, or copies of notices of assessment and identification documents into your query.

Using AI more safely

If you choose to use AI for money-related questions, treat it as a starting point for explanation rather than for decision-making. Always check answers against official sources like the ATO, ASIC's Moneysmart website and trusted, qualified professionals. Remember that AI can sound confident even when the information it gives you is incorrect.

Keep personal information out of your chat wherever possible, and consider using AI to prepare questions for your professional adviser rather than seeking direct recommendations from the tool itself.

When to speak to a professional

If your question is, "What should I do?", "Can I claim this?", "Does this apply to me?" or "What's the best option in my situation?", it's time to consult a qualified professional.

For tax services, ensure your practitioner's registered on the Tax Practitioners Board Register. For personal financial advice, seek assistance from a licensed adviser recorded on ASIC's Financial Advisers Register.

AI can be a valuable learning tool, but it can't replace professional advice tailored to your circumstances. Before acting on AI-generated information about tax, super or financial matters, verify it with trusted sources and consult your tax adviser or financial adviser to understand how the rules apply to your specific situation.

Source: www.ato.gov.au/about-ato/protect-yourself-from-misinformation-and-disinformation

www.asic.gov.au/about-asic/news-centre/news-items/moneysmart-publishes-tips-on-using-ai-for-financial-issues/

It's logbook check-in time

Many taxpayers assume that once they've completed a logbook for their car, they're set for the next five years. However, this common misconception could mean you're claiming more, or less, than you're actually entitled to when it comes to work-related car expenses and your tax return.

When do you need a new logbook?

While logbooks can remain valid for five years, certain life changes require you to start fresh with a new one. Relying on an outdated logbook that no longer reflects your actual work-related travel patterns may result in incorrect claims.

You'll need to create a new logbook if you:

- change jobs;
- move to a new house or workplace; or
- experience changes to your pattern of car use for work purposes, such as taking on a different role or routine that affects your work-related trips.

Using the logbook method for multiple cars

If you're claiming work-related car expenses for two or more vehicles, you must keep a separate logbook for each car. It's important to ensure these logbooks cover the same period to maintain consistency in your record-keeping.

Purchasing a new car

If you purchase a new car during the income year and want to continue relying on your previous car's logbook, you must make a written nomination before lodging your tax return. This nomination needs to state that you're replacing your original car with a new car and specify the date the nomination takes effect.

Company cars and novated leases

Remember, if your employer provides you with a car or you salary sacrifice a car using a novated lease, you can't claim work-related car expenses using the logbook or cents per kilometre methods. This is because you don't own the car.

What records do you need to keep?

When claiming car expenses using the logbook method, you'll need to maintain several types of records, including:

- odometer records for the start and end of the period you own the car during the income year you rely on your logbook;
- proof of purchase price, or a new lease agreement and lease payment records;
- decline in value calculations;
- fuel and oil receipts, or records of a reasonable estimate of these expenses based on odometer readings;
- receipts from commercial charging stations or evidence showing you incurred additional electricity costs to charge your electric or plug-in hybrid car at home, such as an electricity bill and the calculation of the direct cost to recharge;
- evidence of payment for registration and insurance; and
- evidence of payment for servicing, repairs and tyres.

Special considerations for electric and plug-in hybrid vehicles

If you use the home charging rate of 4.2 cents per kilometre (5.47 cents for 2026–2027) for a reasonable estimate of home charging based on odometer readings, you cannot claim any commercial charging costs. For plug-in hybrid vehicles, a specific formula must be used to calculate home charging expenses.

Need assistance?

Keeping accurate logbooks and records is essential for claiming the correct amount of work-related car expenses. If you've experienced any changes to your work situation, living arrangements or car usage patterns, now's the time to review whether your current logbook still accurately reflects your circumstances. The ATO's cars, transport and travel webpage offers more information.

Source: www.ato.gov.au/individuals-and-families/income-deductions-offsets-and-records/deductions-you-can-claim/work-related-deductions/cars-transport-and-travel

Will increased deeming rates affect your Seniors Health Card?

If you hold a Commonwealth Seniors Health Card or receive Centrelink benefits, changes taking effect in late March 2026 could impact your assessed income and benefit eligibility without any change to your actual financial circumstances.

From 20 March 2026, social security deeming rates will increase. The lower deeming rate will rise from 0.75% to 1.25%, while the upper rate increases from 2.75% to 3.25%. These rates apply to both full and part pensioners, as well as self-funded retirees who hold a Commonwealth Seniors Health Card. The rates will be applied automatically by Services Australia.

Understanding deeming

Deeming rates are a simplified method used by Centrelink to assess income from your financial investments. Rather than tracking the actual returns from each investment, the government assumes your financial assets earn a set percentage return – this is the deeming rate. This system was introduced over 30 years ago to create fairness and encourage people to choose investments based on merit rather than their impact on social security payments.

Under deeming, your financial investments are assumed to earn income at the prescribed rates, regardless of what you actually earn. The lower rate applies to financial assets up to \$64,200 for singles and \$106,200 for couples (combined). The upper rate applies to balances above these thresholds.

Who's affected?

Higher deeming rates can increase your assessed income even when your financial position hasn't changed. This affects pensioners, Commonwealth Seniors Health Card holders and any Centrelink customers or aged care residents who have financial assets subject to deeming.

The changes could impact:

- Commonwealth Seniors Health Card eligibility if your adjusted taxable income plus deemed income exceeds the threshold;
- Age Pension payments for those subject to income testing;
- some aged care fees, as higher deemed income can lead to higher means-tested care fees; and
- other income-tested benefits or concessions.

Importantly, deeming doesn't change the actual interest or dividends you receive – it's only a calculation used by Centrelink for assessment purposes.

Account-based pensions affected

Account-based income streams that commenced on or after 1 January 2015 are subject to deeming for social security income test purposes. Where deeming applies, your actual pension payments are ignored for assessment purposes.

This particularly affects Commonwealth Seniors Health Card holders and age pensioners who are subject to income testing. Higher deemed income may affect your eligibility if your income is close to the relevant threshold.

Example

Consider a single Commonwealth Seniors Health Card holder with a \$300,000 account-based pension that commenced after 1 January 2015. Currently, this balance produces deemed income of around \$7,000 per year. From 20 March 2026, the same balance will generate deemed income of around \$8,500 per year – an increase of approximately \$1,500 annually, even though pension payments remain unchanged.

What you should do

Review your circumstances, particularly if you have significant wealth in financial assets. Care should be taken to assess income test outcomes if your income is close to benefit thresholds.

You may want to:

- review your current Centrelink entitlements and income assessments;
- calculate how the new deeming rates might affect your benefits or fees; and
- consider whether any adjustments to your financial arrangements are appropriate.

These changes affect a complex area where social security and superannuation rules intersect. The impact will vary significantly depending on your individual circumstances, asset levels and benefit entitlements.

Source: www.servicesaustralia.gov.au/deeming

STP penalties are under the ATO's microscope

The ATO's latest draft practice statements mark an important shift for employers: real-time reporting is no longer treated as a "new" system that's still bedding down. Single Touch Payroll (STP) and super fund member reporting are now established parts of Australia's tax and super framework, and the ATO has signalled clearer administrative guidance on how penalties may be applied when reporting is late, incomplete, incorrect or in the wrong format.

For employers, the key message is straightforward: STP is not just a payroll process. It's now a critical data source used across the tax and super systems, including employee income statements, activity statement processes and the ATO's compliance work on super guarantee. The ATO says STP information is shared with other government agencies and is used in real time, which is one reason accurate reporting matters more than ever.

So what are the latest draft practice statements about? The first addresses penalties that apply to employers who fail to comply with their STP reporting obligations. The second focuses on false and misleading

statement penalties on superannuation funds that don't report superannuation contribution information to the ATO accurately. The ATO says both drafts respond to the same problem: event-based reporting loses effectiveness when reporting is incorrect, incomplete, in the wrong format or not made at all.

Employers

Employers' STP obligations are already clear. When you pay employees, you need to report payroll information through STP-enabled software, including salaries and wages, PAYG withholding and super liability information. You are generally required to lodge a pay event on or before payday, and by 14 July each year you also need to make an end-of-year finalisation declaration through STP. Unless you're covered by a deferral or exemption, you should now be reporting through STP Phase 2.

The ATO has also been explicit that penalties can apply. Its STP guidance says employers that haven't started STP reporting, or have not transitioned to STP Phase 2 and aren't covered by a deferral or exemption, may be subject to failure to lodge penalties. More broadly, the ATO's penalty guidance explains that a failure to lodge on time penalty can apply where a required return, statement or report isn't lodged by the due date, although the ATO also says it generally considers your circumstances and often doesn't apply penalties in isolated cases of late lodgment.

In practice, that means the March 2026 draft guidance doesn't create a brand new obligation for businesses. Instead, the ATO is setting out a firmer administrative approach to obligations that already exist. The ATO's own material shows its use of STP data has expanded, including matching employer STP data with super fund data to identify late payment, underpayment and non-payment of super guarantee contributions earlier and more proactively.

Superannuation funds

Employers may wonder why the second draft practice statement, aimed at superannuation funds, should matter to them. The answer is that employer reporting and fund reporting now work together. Super funds must report member account transactions and attributes under the ATO's reporting protocols, and the ATO says penalties may apply if a fund fails to lodge required information on time, provides a false or misleading statement, omits information for a member or fails to keep adequate and correct records. The ATO also notes that penalties won't apply for a false or misleading statement where reasonable care was taken.

For employers, this joined-up reporting environment means mistakes are more visible. If your business's payroll records, STP reporting and super payments don't line up, that can create issues not only for ATO compliance activity, but also for what your employees see in myGov and in their super records. The ATO is already encouraging employers to maintain good records, ensure reporting and payments are timely and accurate and correct errors as soon as they are identified.

What should employers do now?

First, treat STP as a live compliance obligation, not an end-of-year tidy-up. Report on or before payday and finalise by 14 July.

Second, make sure you're using the correct STP Phase 2 reporting format if you're required to do so. The ATO has specifically identified incorrect format reporting as one of the issues reducing the effectiveness of event-based reporting.

Third, reconcile your payroll regularly. The ATO recommends checking payroll totals, STP year-to-date figures and Business Activity Statement (BAS) reporting, and making sure your regular checks are supported by strong payroll governance, documented processes and periodic review of controls.

Fourth, fix errors early. The ATO repeatedly says timely correction and early engagement matter. If you're having difficulty meeting obligations, contact the ATO as soon as possible rather than waiting for the problem to grow.

The ATO's draft guidance on penalties is a reminder that STP accuracy, timing and completeness now sit at the centre of payroll compliance. If your business pays employees, the safest approach is to assume your reporting will be checked against other data sources, and to build your payroll processes accordingly. In the current reporting environment, good payroll housekeeping is one of the best ways to stay out of penalty territory.

Source: www.ato.gov.au/law/view/view.htm?docid=%22DPS%2FSPD20262%2FNAT%2FATO%2F00001%22
www.ato.gov.au/law/view/view.htm?docid=%22DPS%2FSPD20261%2FNAT%2FATO%2F00001%22

Major superannuation tax changes now law

Parliament has delivered significant changes to Australia's superannuation system that will reshape how high-balance super accounts are taxed and boost support for low-income earners.

Two key Bills have passed without amendment and are now law : the *Treasury Laws Amendment (Building a Stronger and Fairer Super System) Act 2026* and its companion *Superannuation (Building a Stronger and Fairer Super System) Imposition Act 2026* introduce the long-anticipated Division 296 tax alongside enhanced low income superannuation tax offset (LISTO) provisions.

Division 296 tax takes effect

This change will affect fewer than 0.5% of current superannuation members – approximately 80,000 Australians with extremely large super balances. For the vast majority, superannuation tax arrangements will remain unchanged.

The new Division 296 tax, commencing 1 July 2026, targets earnings on large superannuation balances through a two-tiered system for earnings on balances exceeding \$3 million:

- the current 15% tax rate remains for earnings on balances up to \$3 million;
- earnings on the super portion between \$3 million and \$10 million will be taxed at an effective 30% rate; and
- earnings on amounts above \$10 million will face a 40% effective tax rate.

These thresholds will be indexed to the Consumer Price Index to keep pace with inflation. The new tax applies only to future realised earnings, not unrealised capital gains on unsold assets.

The tax applies across APRA-regulated funds, SMSFs and exempt public sector schemes, though calculation methods vary between fund types. The ATO will assess the tax amount, with payment generally due within 84 days of receiving the assessment notice. Individuals can arrange for amounts to be released from their superannuation interests to meet this tax obligation.

For defined benefit interests not in retirement phase, Division 296 tax payment is deferred until 21 days after the first benefit payment.

Timing provides planning opportunity

Division 296 applies from the 2026–2027 income year onwards. Importantly, for the first year only, liability is determined by reference to your total superannuation balance at 30 June 2027, rather than at the start of the year. This creates a window for individuals to reduce their balances before that date if needed.

There's also a unique provision for the 2026–2027 year: individuals who die on or before 30 June 2027 will not be liable for Division 296 tax, as their balance will be nil at the measurement date.

Total superannuation balance calculation changes

Less publicised but equally important are changes to how total superannuation balances (TSB) are calculated. The new framework introduces a “TSB value” concept, with each superannuation interest having its own TSB value. Your total TSB becomes the sum of all these values across your Australian superannuation interests.

The TSB value is determined either by prescribed regulations or, where none exist, by the withdrawal benefit amount payable if you voluntarily ceased the interest.

These TSB changes apply from 1 July 2026 and affect all tax purposes where TSB is relevant, not just Division 296 calculations. However, for Division 296 purposes only, limited recourse borrowing amounts are excluded from TSB calculations to ensure the tax applies to net assets only.

LISTO enhancements

From 1 July 2027, the maximum LISTO increases from \$500 to \$810, while the eligibility threshold rises from \$37,000 to \$45,000. The new framework links both amounts to existing tax thresholds and rates, meaning they will automatically adjust when marginal tax rates or superannuation guarantee rates change.

What this means for you

These changes represent the most significant superannuation tax reforms in years. If you have a large superannuation balance, the window before 30 June 2027 provides time to consider your options. Low-income earners will benefit from enhanced LISTO support from 2027.

Given the complexity of these changes and their interaction with existing superannuation rules, it's essential to seek professional advice to understand how they affect your specific circumstances and retirement planning strategy.

Source: www.ato.gov.au/tax-and-super-professionals/for-superannuation-professionals/super-funds-newsroom/better-targeted-super-concessions-is-now-law

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