2020 Federal Budget Snapshot

The Mischel & Co. Group
Accountants & Advisors

The 2020/2021 Federal Budget sees a record $213.7 Billion deficit and net debt predicted to peak at $966 Billion (44% GDP) by June 2024.

With unemployment expected to peak at 8% in December 2020, the Government is focused on growing the economy and creating jobs, with unemployment expected to reduce to 6.5% by June 2022.

ACCELERATED PERSONAL TAX CUTS
BACKDATED TO 1 JULY 2020

EXTENDED INSTANT ASSET WRITE-OFF

INCORPORATED SMALL BUSINESS LOSS CARRY BACK

$2 BILLION ADDITIONAL R&D TAX INCENTIVES

EXPANDED SMALL BUSINESS TAX CONCESSIONS

SUPER: EMPLOYERS TO EFFECTIVELY STOP OFFERING DEFAULT FUND

$17 BILLION TRANSPORT INFRASTRUCTURE

JOBMAKER HIRING CREDIT FOR 16-35 YEAR OLDS

100,000 NEW APPRENTICESHIPS WITH 50% WAGE SUBSIDY

Federal Budget 2020/2021

Jobs, Jobs, Jobs.

On Tuesday, 6 October 2020, Treasurer Josh Frydenberg handed down the 2020-21 Federal Budget, his 2nd Budget. He said the Budget was "all about jobs" (including creating new jobs and getting the unemployed back into work) and getting the economy moving again.

The major measures announced in the Budget included:

1. Bringing forward the second stage of the personal tax cuts by 2 years to 1 July 2020,
2. Retaining the low and middle income tax offset (LMITO) for the 2020/21 Financial year,
3. The Stage 3 personal income tax cuts remain unchanged and will commence in 2024/25,
4. Loss carry-back: The Government will allow eligible companies to carry back tax losses from the 2019/20 to 2021/22 income years to offset previously taxed profits in 2018/19 or later income years,
5. Extension of the asset write-off: For eligible capital assets businesses will be able to write off the full (100%) value of the purchase cost,
6. Superannuation: Several measures were announced, commencing on 1 July 2021,
7. R&D: For small companies, with aggregated annual turnover of less than $20 million, the refundable R&D tax offset will be set at 18.5 percentage points above the claimant's company tax rate, and the $4 million cap on annual cash refunds will be scrapped,
8. JobMaker hiring credit: The Government announced a new JobMaker hiring credit to encourage businesses to hire younger Australians,
9. The Government has committed to creating 100,000 new apprenticeships,
10. Age Pensioners will receive an additional $250 payment from November 2020 and a further $250 payment from early 2021,
11. CGT Relief: A targeted CGT exemption for granny flat arrangements,
12. Expanded access to a range of small business tax concessions by increasing the small business entity turnover threshold from $10 million to $50 million,
13. An FBT exemption for employers provided retraining and reskilling benefits to redundant, or soon to be redundant employees.

Personal Tax Cuts – The legislated Stage 2 personal tax cuts have been backdated to 1 July 2020. The effect of back-dating the change is that money will flow into the pockets of taxpayers as soon as the legislation receives Royal Assent.

Relief will be up to $2,745 for singles and up to $5,490 for dual income families. The total benefit of the cuts are $17.8 billion and are expected to benefit over 11 million individuals. The majority of the benefit of the tax cuts will go to those on incomes below $90,000.

These changes involve:

- increasing the upper threshold of the **19%** personal income tax bracket from $37,000 to **$45,000**; and
- increasing the upper threshold of the **32.5%** personal income tax bracket from $90,000 to **$120,000**.

These changes are illustrated in the following table (which excludes the Medicare Levy).

Rate	Current (2019 to 2022)	Proposed (2021 – 2024)
0%	0 – $18,200	0 – $18,200
19%	$18,201 – $37,000	$18,201 – **$45,000**
32.5%	$37,001 – $90,000	**$45,001 – $120,000**
37%	$90,001 – $180,000	$120,001 – $180,000
45%	$180,001+	$180,001+

Tax relief by taxable income, 2020–21 compared with 2017–18

	2017–18	2020–21		
TaxableIncome ($)	Tax Liability ($)	Tax Liability ($)	Change in Tax ($)	Change in Tax (%)
40,000	4,947	3,887	-1,060	-21.4
60,000	12,147	9,987	-2,160	-17.8
80,000	19,147	16,987	-2,160	-11.3
100,000	26,632	24,187	-2,445	-9.2
120,000	34,432	31,687	-2,745	-8.0
140,000	42,232	39,667	-2,565	-6.1
160,000	50,032	47,467	-2,565	-5.1
180,000	57,832	55,267	-2,565	-4.4

Already withheld taxes in excess of the revised rates will not be refunded until 2021 tax returns are lodged. The new rates will apply to future wage payments and withholding amounts. The above table provided in the Budget shows the tax relief by taxable income that would be provided in 2020-21 for an individual.

Changes To The Low Income Tax Offset (LITO) – The Government also announced that it will bring forward the changes that were proposed to the LITO from 1 July 2022 to 1 July 2020 (i.e. from the 2021 income year), as follows:

- The maximum LITO will be increased from $445 to $700.
- The increased (maximum) LITO will be reduced at a rate of 5 cents per dollar, for taxable incomes between $37,500 and $45,000.
- The LITO will be reduced at a rate of 1.5 cents per dollar, for taxable incomes between $45,000 and $66,667.
- the low and middle income tax offset (LMITO) has also been retained for 2020-21

Offset	STAGE 1 — **From 1 July 2018**		STAGE 2 — **From 1 July 2022**	
	Taxable income	**Rate**	**Taxable income**	**Rate**
LITO	$0–$37,000	$445	$0–$37,500	$700
	$37,000–$66,666	$445 less 1.5 cents for every $1 by which the taxable income exceeds $37,000	$37,501–$45,000	$700 less 5 cents for every $1 by which the taxable income exceeds $37,500
			$45,001–$66,666	$700 less 1.5 cents for every $1 by which the taxable income exceeds $45,000
	$66,667 and over	Nil	$66,667 and over	Nil
LMITO	$0–$37,000	$255	LMITO available only until 1 July 2021	
	$37,001–$48,000	$255 plus 7.5% of the amount of the income that exceeds $37,000		
	$48,001–$90,000	$1,080		
	$90,001–$126,000	$1,080 less 3% of the amount of the income that exceeds $90,000		
	$126,001 and over	Nil		

Temporary Full Expensing Of Depreciable Assets – Businesses with an aggregated turnover up to $5 billion a year can **immediately deduct** (what the Budget terms as 'full expensing') the full (uncapped) cost of an eligible **new** depreciating asset in the year the asset is first used or is installed ready for use.

Where turnover is less than $50 million eligible businesses can also immediately deduct the cost of assets purchased second hand. In both cases, the depreciable asset must have:

- been acquired from 7:30pm (AEDT) on 6 October 2020 (Budget night); and
- been first used or installed ready for use by 30 June 2022.

In addition, small businesses (annual turnover of less than $10 million) can deduct the balance of their simplified depreciation pool at the end of the income year while full expensing applies (i.e. up to 30 June 2022). Furthermore, the provisions which prevent small businesses from re-entering the simplified depreciation regime for five years if they opt-out will continue to be suspended.

Instant Asset Write Off Extension – Eligible businesses that acquire eligible new or second-hand assets under the Covid enhanced $150,000 instant asset write-off will also have until 30 June 2021 to first use or install those assets, an extension of 6 months from 31 December 2020. This applies for asset purchases under $150,000 and businesses with an aggregated turnover of $50 to $500 million.

Given the generous new outright deduction for capital assets until 30 June 2022, the instant asset write-off rules have become temporarily irrelevant for most taxpayers (ie those with aggregated annual turnover of less than $5 billion), however they still apply to assets purchased from 12 March 2020 to 6 October 2020

Depreciation Rules Still Relevant – There were no changes to the capital allowance rules in the 2020-21 Federal Budget. This means that the depreciation rules as currently legislated will not change. This is not a surprise, given the ability of pretty much all businesses to claim an outright deduction for new asset purchases from 7 October 2020 to 30 June 2022.

Note, though, that as part of its response to the COVID-19 pandemic, the Government had earlier enacted to allow businesses with aggregated turnovers of less than $500 million in an income year to deduct capital allowances for depreciating assets at an accelerated rate. This is a temporary measure is due to finish on 30 June 2021.

To be eligible for the accelerated depreciation, the depreciating asset must be:

1. new and not previously held by another entity (other than as trading stock or for the purposes of reasonable testing or trialling) – this excludes most second-hand assets;
2. first held on or after 12 March 2020 (ie a post-11 March 2020 asset);
3. first used or first installed ready for use for a taxable purpose on or after 12 March 2020 and before 1 July 2021; and
4. the asset has not been deducted under the instant asset write-off rules

Loss Carry Back – The Government has announced that it will introduce measures to allow eligible companies with an aggregated turnover of less than $5 billion to carry back losses from the 2020, 2021 or 2022 income years to offset previously taxed profits made in or after the 2019 income year to free up cash flow to support business.

This will allow such companies to generate a refundable tax offset in the year in which the loss is made. The tax refund is limited by requiring that the amount carried back is not more than the earlier taxed profits and that the carry back does not generate a franking account deficit.

The tax refund will be available on election by eligible companies when they lodge their tax returns for the 2021 and 2022 income years. Note that, companies that do not elect to carry back losses under this measure can still carry losses forward as normal.

Research & Development – Recognising the significant role innovation has to play in boosting manufacturing and fast-tracking recovery, the Budget announcements included a roll-back of previously announced cuts and restrictions. Refund and offset rates will be lifted, tests will be streamlined and planned increases to the cap on eligible spending will go ahead.

Changes will apply <u>from 1 July 2021</u> and in broad terms, the Bill proposes:

- for small companies with an aggregated annual turnover of less than $20m, the refundable R&D tax offset will be set at 18.5% above the claimant's company tax rate (compared to 13.5%)
- removing the annual $4.0m cap on annual cash refunds for small R&D entities;

- For larger business, the non-refundable R&D offset rates will be either 8.5 or 16.5 percentage points above the claimant's tax rate, depending on R&D intensity as reflected in the table below.

Aggregated annual turnover[19] of the R&D entity	Rate of R&D tax offset	R&D spend as % of total expenditure	Proposed premium	Proposed R&D tax offset rate	
				Corporate tax rate: 25%	Corporate tax rate: 30%
Less than $20 million	Refundable **43.5%** tax offset	Not applicable	18.5%	**43.5%**	**48.5%**
$20 million or more, or controlled by exempt entities	Non-refundable **38.5%** tax offset	Initial 2% Above 2%	8.5% 16.5%	**33.5%** **41.5%**	**38.5%** **46.5%**

Small Business Tax concessions – The aggregated annual turnover threshold for small business tax concessions has been lifted. Businesses with an aggregated annual turnover up to $50 million will be able to access up to 10 small business tax concessions.

The expanded concessions will apply in three phases, as follows:

1. From **1 July 2020**, eligible businesses will be able to immediately deduct certain start-up expenses and certain prepaid expenditure.
2. From **1 April 2021**, eligible businesses will be exempt from FBT on car parking and multiple work-related portable electronic devices, such as phones or laptops, provided to employees.
3. From **1 July 2021**:
    - Eligible businesses will be able to access the simplified trading stock rules, remit pay as you go (PAYG) instalments based on GDP adjusted notional tax and settle excise duty and excise-equivalent customs duty monthly on eligible goods.
    - Eligible businesses will generally have a two-year amendment period apply to income tax assessments for income years starting from 1 July 2021.
    - The Commissioner of Taxation's power to create a simplified accounting method determination for GST purposes will be expanded to apply to businesses below the $50 million aggregated annual turnover threshold.

Fringe Benefits Tax (FBT) – From 2 October 2020, the Government will introduce an FBT exemption for retraining and reskilling benefits provided by an employer to redundant, or soon to be redundant, employees, where the benefits may not be related to their current employment (e.g., where an employer retrains a sales assistant in web design in order to redeploy them to an online marketing role in the business).

This measure is designed to encourage employers to assist redundant workers to transition to new employment opportunities within or outside an employer's business (e.g., to prepare such employees for their next career), without triggering an FBT liability.

Currently, FBT is payable if an employer provides training to redundant, or soon to be redundant, employees and that training does not have a sufficient connection to their current employment. The cost of providing such assistance is economically prohibitive as it effectively doubles the cost for employers (see example below).

The FBT exemption will not extend to retraining acquired by way of a salary packaging arrangement. It will also not be available for Commonwealth supported places at universities (which already receive a benefit) or extend to repayments towards Commonwealth student loans.

An example from budget papers:

FBT and retraining		
Amount ($)	**With FBT**	**FBT exempt**
Retraining cost before tax ($1,500 x 30)	45,000	45,000
FBT payable (Type 1 gross-up, for employer paying GST)	43,996	-
Total cost (before tax)	88,996	45,000
Corporate tax rate	30%	30%
Total cost (after tax)	**62,297**	**31,500**

In addition, the Government said it will consult on allowing an individual to deduct education and training expenses they incur themselves where the expense is not related to their current employment. In this respect, the Government acknowledged that the current rules, which limit self-education deductions to training related to current employment, may act as a disincentive to individuals to retrain and reskill to support their future employment and career.

Superannuation Reforms – Reforms to assist tax payers will be introduced to reduce the duplication of accounts as a result of employment changes and to streamline the provision of fund information. Superannuation funds that are part of the Government's MySuper initiative will be required to meet annual performance criteria, with consistent poor performers prohibited from receiving new members until they improve.

Currently, structural flaws in the superannuation system mean that unnecessary fees and insurance premiums are paid on multiple accounts, members pay too much in super fees, underperforming products are costing members in lost retirement savings, and there is inadequate transparency on how funds are spending members' money.

From 1 July 2021, the proposed reforms will make the system better for members in four key ways:

- *Your superannuation follows you* – An existing super account will be 'stapled' to a member to avoid the creation of a new account when that person changes their employment.
- *Empowering members* – A new, interactive, online YourSuper comparison tool will help members decide which super product best meets their needs.
- *Holding funds to account for underperformance* – MySuper products will be subject to an annual performance test. Funds that underperform will need to inform their members. Funds that fail two consecutive underperformance tests will not be permitted to receive new members unless their performance improves.
- *Increased accountability and transparency* – The Government will strengthen obligations on superannuation trustees to ensure their actions are consistent with members' retirement savings being maximised. For example, trustees will be required to comply with a new duty to act in the best financial interests of members.

Stapled accounts - how they will work

The first phase of the reforms is proposed to commence on 1 July 2021. Employers will no longer automatically create a new superannuation account in their chosen default fund for new employees when they do not decide on a super fund. Instead, employers will obtain information about the employee's existing super fund from the ATO, if it is not provided by the employee.

The employer will do this by logging onto ATO online services and entering the employee's details. Once an account has been selected, the employer will pay super contributions into the employee's account.

The second phase of the reforms will see the ATO provide a new service for employers. As of 1 July 2022, the ATO will enable digital software providers to give employers the option to automate the communications between the employer's payroll system and the ATO system. Once this new service is adopted, it will remove the need for the employer to manually enter into their payroll system their employees' superannuation fund details, reducing business administration costs.

Under both phases, if an employee does not have an existing super account (eg is new to the workforce) and does not make a decision regarding a fund, the employer will pay the employee's super into their nominated default super fund.

Superannuation Guarantee – The Budget did not announce any change to the timing of the next Super Guarantee (SG) rate increase. The SG rate is currently legislated to increase

- from 9.5% to 10% from 1 July 2021, and
- by 0.5% per year from 1 July 2022 until it reaches 12% from 1 July 2025.

While the Budget did not announce any change to the start date for the SG rate increase, the Government probably does not need to decide this policy issue until next year's Federal Budget in May 2021, ahead of the 1 July 2021 legislated change date for the SG rate.

JobMaker Hiring Credit – The Budget announced that the Government will provide $4 billion over 3 years from 2020-21 to accelerate employment growth by supporting organisations to take on additional employees through a hiring credit.

The JobMaker Hiring Credit will be available to eligible employers over 12 months from 7 October 2020 for each additional new job they create for an eligible employee they hire.
Eligible employers who can demonstrate that the new employee will increase overall employee headcount and payroll will receive:

- $200 per week for 16 to 29 year-olds and
- $100 per week for 30 to 35 year-olds.

This credit is applicable for new jobs created from 7 October 2020 to 6 October 2021 and will be claimed quarterly in arrears from the ATO, starting from **1 February 2021**.

The employee will need to have been on JobSeeker, Youth Allowance or Parenting Payment for at least one of the previous three months at the time of hiring and be employed for at least 20 hours per week. Employers need to demonstrate they have increased their overall employment level and will need to report employee's payroll information through single touch payroll, among other criteria.

The amount of the credit is **capped at $10,400** for each additional new position created. Furthermore, the total credit claimed by an employer cannot exceed the amount of the increase in payroll for the reporting period in question (see employer eligibility requirements below).

Who is an eligible employee?

Employees may be employed on a permanent, casual or fixed term basis. To be an 'eligible employee', the employee must:

- be aged (i.e., at the time their employment started) either:
  - 16 to 29 years old, to attract the payment of $200 per week; or
  - 30 to 35 years old to attract the payment of $100 per week;
- have worked at least 20 paid hours per week on average for the full weeks they were employed over the reporting period;
- have commenced their employment during the period from 7 October 2020 to 6 October 2021;
- have received the JobSeeker Payment, Youth Allowance (Other), or Parenting Payment for at least one month within the past three months before they were hired; and
- be in their first year of employment with this employer and must be employed for the period that the employer is claiming for them.

Certain exclusions apply, including employees for whom the employer is also receiving a wage subsidy under another Commonwealth program.

Who is an eligible employer?

An employer is able to access the JobMaker Hiring Credit if the employer:

- has an ABN;
- is up to date with tax lodgement obligations;
- is registered for Pay As You Go withholding;
- is reporting through Single Touch Payroll;
- is claiming in respect of an 'eligible employee';
- has kept adequate records of the paid hours worked by the employee they are claiming the hiring credit in respect of; and
- is able to demonstrate that the credit is claimed in respect of an additional job that has been created. Broadly, there must be an increase in the business' total employee headcount and also in the payroll of the business for the reporting period (based on a comparison over a specified reference period).

Employers do not need to satisfy a fall in turnover test to access the JobMaker Hiring Credit.

Certain employers are excluded, including those who are claiming the JobKeeper payment.

New employers created after 30 September 2020 are not eligible for the first employee hired but are (potentially) eligible for the second and subsequent eligible hires.

Wage Subsidy For New Apprentices – The Government will provide a capped 50% wage subsidy to businesses who take on a new Australian apprentice from 5 October 2020 to 30 September 2021. It will be available to employers of any size or industry, Australia-wide – regardless of geographic location or occupation. There are 2 important caps:

- it is limited to 100,000 new apprentices or trainees in total; and
- the 50% subsidy will be limited to $7,000 per quarter (ie $28,000 per annum).

The Department of Education, Skills and Employment states that the start date for claims is 1 January 2021, i.e. that payments will be made in arrears.

Tax-Free Business Support Grants – The Federal Government has announced that the Victorian Government's Business Support Grants for small and medium businesses, as announced on 13 September 2020, are non-assessable, non-exempt income for tax purposes. The Government may extend this arrangement to similar future grants from all States and Territories on an application basis.

Eligibility for this treatment will be limited to grants announced on or after 13 September 2020 and for payments made between 13 September 2020 and 30 June 2021.

Insolvency Reforms To Support Small Business – The Government will implement certain insolvency reforms, effective from 1 January 2021 (subject to the passing of legislation) to support small business, including the following:

- The introduction of a new streamlined process to enable eligible incorporated small businesses (broadly, those with liabilities of less than $1 million) in financial distress to restructure their debt.
- Simplifying the liquidation process for eligible incorporated small businesses (to allow faster and lower-cost liquidations, increasing returns for creditors and employees).
- Support for the insolvency sector (to ensure it can respond effectively to increased demand and to the needs of small business).

Currently, the insolvency system faces a number of challenges. These include an increase in the number of businesses in financial distress due to COVID-19, a 'one-size-fits-all' system, and high costs and lengthy processes that can prevent distressed small businesses from engaging with the insolvency system early thereby reducing their opportunity to restructure and survive.

Temporary insolvency and bankruptcy protections that were introduced in March 2020 to provide relief for businesses impacted by COVID-19 are due to expire on 31 December 2020 (e.g. under these measures, directors are temporarily relieved from personal liability for trading while insolvent).

However, the number of companies being put into external administration is expected to increase significantly, putting additional stress on the system. Therefore, the above proposed reforms will help more businesses to successfully get to the other side of the crisis.

Removing CGT For 'Granny Flat Arrangements' – A targeted CGT exemption will apply from 1 July 2021 (subject to the passing of legislation), for 'granny flat arrangements. Broadly, these involve older Australians or people with disabilities transferring their home or the proceeds from the sale of their home (and/or other assets) to their adult children or other trusted persons in return for the promise of ongoing housing and care.

Under this exemption, CGT will not apply to the creation, variation or termination of a formal written granny flat arrangement providing accommodation for older Australians or people with disabilities.

This change will only apply to agreements that are entered into because of family relationships or other personal ties and will not apply to commercial rental arrangements.

$250 Cash Payments For Income Support Recipients – The Government will pay two $250 economic support payments for eligible income support recipients and concession card holders. The payments will be made from November 2020 and early 2021 to eligible income support recipients and concession card holders, including:

- Age Pension;
- Disability Support Pension;
- Carer Payment;
- Family Tax Benefit, including Double Orphan Pension (not in receipt of a primary income support payment);
- Carer Allowance (not in receipt of a primary income support payment);
- Pensioner Concession Card (PCC) holders (not in receipt of a primary income support payment);
- Commonwealth Seniors Health Card holders; and
- eligible Veterans' Affairs payment recipients and concession card holders.

The $250 cash payments are tax exempt and will not count as income support for social security purposes. These cash payments follow the two $750 stimulus payments that were paid in April and July 2020 for social security and veteran income support recipients and concession card holders.

ATO and ABS Additional Funding – The ATO has been granted a funding boost of $306 million over the next four years. This is to assist with the "effective delivery of the next phase of the JobKeeper Payment and the new JobMaker Hiring Credit".

In addition, the Australian Bureau of Statistics will be granted an additional $241 million of funding over the next four years "to maintain Australia's statistics gathering and analysis capabilities to better track Australia's COVID-19 economic recovery". We expect these funding boosts to go hand in hand as a means of gathering analytics data to facilitate the ATO's compliance activity.

The information contained in this newsletter is a combination of the interpretation and thoughts of this firm together with the various government, institutional and professional association reporting that has been made available since the 2020 Federal Budget was tabled.

The content of this information memorandum does not reflect all the announcements outlined in 2020 Federal Budget but simply highlights those points which are most likely to affects our clients.

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