2020/21 FEDERAL BUDGET UPDATE

On Tuesday night the Treasurer, Josh Frydenberg, handed down the 2020/21 Federal Budget. We have set out below some of the key items contained in the Budget.

Whilst the proposed changes are subject to the passing of legislation, it is worthwhile keeping abreast of these and any planning opportunities or strategies that may arise.

Please feel free to reach out to us should you have any questions or concerns.

Individuals

Personal income tax rate changes

The Government first announced its 'Personal Income Tax Plan' in the 2018/19 Budget, which included various reductions to personal income taxes via a three-stage process. These changes were subsequently included in Treasury Laws Amendment (Personal Income Tax Plan) Act 2018, which received Royal Assent on 21 June 2018.

Tuesday night's budget intends to bring forward the second stage of the plan by two years so that the following changes apply from 1 July 2020:

- raising the 19% tax bracket from $37,000 to $45,000, and
- raising the 32.5% tax bracket from $90,000 to $120,000

The Stage 3 rates remain unchanged and as previously legislated, are due to commence on 24 July 2024.

Income tax offset changes

The 2020/21 Federal Budget also included a bring forward of changes to the Low Income Tax Offset (LITO) in line with the income tax rate changes. From the 1 July 2020:

- 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 Government also announced that the Low and Middle Income Tax Offset (LMITO) would be retained for the 2020-21 financial year. Individuals earning between $48,000 and $90,000 would continue to receive the maximum $1,080 offset. Individuals with taxable incomes of between $90,000 to $126,000, would continue to receive LMITO at a reduced rate for the 2021 financial year.

CGT exemption for granny flat arrangements

Subject to the passing of legislation, from 1 July 2021 capital gains tax (CGT) will not apply to granny flat arrangements providing accommodation for older Australians or people with disabilities. The exemption will only apply to arrangements entered into because of family relationships or other personal ties and does not apply to commercial rental arrangements.

Currently, CGT can act as a determent against formalising such arrangement resulting in them being legally unenforceable and open to financial abuse or exploitation. This measure is aimed at removing this determent, in order to provide better support to older Australians and people with disabilities whilst stimulating demand for small builds.

First Home Loan Deposit Scheme

The Government will allocate an additional 10,000 places for first home buyers under the existing First Home Loan Deposit Scheme.

Under the existing Scheme, eligible first home buyers can obtain a loan to build a new home or purchase a newly built home with a deposit of as little as 5%. The Scheme provides a Government-backed guarantee equals to the difference between the deposit (of at least 5%) and 20% of the purchase price. Applications can be made as part of the standard home loan application process through participating lenders. The Scheme has already helped almost 20,000 first home buyers.

The Treasurer said eligible first home buyers will also be able to take advantage of the Federal Government's First Home Super Saver Scheme and HomeBuilder. First home buyers may also be eligible for State and Territory grants and concessions.

The additional 10,000 places under the scheme will be provided from 6 October 2020. The additional guarantees will be available until 30 June 2021.

Businesses

Expanded access to Small Business Tax Concessions

The 2020/21 Federal Budget included an announcement that access to some small business tax concessions will be expanded to included entities with an aggregated annual turnover of between $10 million and $50 million. For eligible businesses, this will include:

1. From 1 July 2020, the ability to immediately deduct certain start-up expenses and prepaid expenditure.

2. From 1 April 2021, exemption 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:
    - access to the simplified trading stock rules
    - a two-year amendment period will apply to income tax (assuming tax affairs are not considered complex) assessments for income years starting from 1 July 2021
    - ability to settle excise duty and excise equivalent customs duty monthly on eligible goods (instead of weekly)
    - access a simplified accounting method for GST

Instant Asset Write-Off

Businesses with an aggregate turnover of less than $5 billion will be able to deduct the full cost of any new eligible assets acquired from 7:30pm on Budget night (06/10/2020) and first used or installed by 30 June 2022. The deduction is to be claimed in the year of first use or when installed.

For small and medium businesses (i.e. those with an aggregated annual turnover of less than $50 million) will also be able to deduct second-hand assets. Businesses with aggregated annual turnover between $50 million and $500 million can still deduct the full cost of eligible second-hand assets costing less than $150,000 that are purchased by 31 December 2020 under the current instant asset write-off rules. Businesses that hold assets eligible for the $150,000 instant asset write-off will have an extra six months (until 30 June 2021), to first use or install such assets.

Small businesses (with aggregated 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.

JobMaker Hiring Credit

The Government announced a new JobMaker Hiring Credit which will be available to eligible employers over 12 months from 7 October 2020 for each additional new job they create for an eligible employee. Eligible employers who can demonstrate that the new employee will increase overall employee headcount and payroll will receive $200 per week if they hire an eligible employee aged 16 to 29 years or $100 per week if they hire an eligible employee aged 30 to 35 years. The JobMaker Hiring Credit will be available for up to 12 months from the date of employment of the eligible employee with a maximum amount of $10,400 per additional new position created.

To be eligible, the employee will need to:

- have worked for a minimum of 20 hours per week, averaged over a quarter
- received the JobSeeker Payment, Youth Allowance (other) or Parenting Payment for at least one month out of the three months prior to when they are hired.

The JobMaker Hiring Credit will be claimed quarterly in arrears by the employer from the ATO from 1 February 2021. Employers will need to report quarterly that they meet the eligibility criteria.

Employers will be eligible to receive the JobMaker Hiring Credit if they:

- have an ABN;
- are up to date with tax lodgement obligations;
- are registered for PAYG withholding;
- are reporting through Single Touch Payroll;
- are claiming in respect of an eligible employee; and
- have kept adequate records of the paid hours worked by the employee they are claiming the hiring credit in respect of.

Jobmaker - Apprenticeship wage subsidy

The 2020 Federal Budget included an expansion of the apprenticeship wage subsidy program previously included in the July 2020 Economic and Fiscal Update. If passed, the expansion will allow businesses of any size to claim the subsidy.

Eligible businesses that employ apprentices or trainees will be eligible to receive up to a 50% wage subsidy, up to $7,000 per quarter, capped at 100,000 places and can be applied to new or recommencing apprentices. This new measure will run from 5 October 2020 to 30 September 2021. Based on the information currently available it is expected that claims will be made in arrears, with the start date for claims under this subsidy being 1 January 2021.

FBT record-keeping

Currently, the FBT legislation prescribes the form that certain FBT records must take and obliges employers and employees to create additional records or declarations in order to comply with FBT obligations. To alleviate some of this burden, the Government will provide the ATO with the power to allow employers to rely on existing corporate records to finalise their FBT returns.

This measure will apply from the start of the first FBT year (1 April) after the date the relevant legislation receives assent.

FBT exemption for retraining and reskilling employees

The Budget confirmed the Government's previous announcement that it will provide an FBT exemption for employer-provided retraining and reskilling benefits provided to redundant, or soon to be redundant, employees where the benefits are not related to their current employment. The Government hopes that by removing the FBT cost associated with this, employers will be encouraged to retain redundant employees to prepare them for their next career.

The FBT exemption will not extend to retraining acquired by way of a salary packaging arrangement or training provided through Commonwealth supported places at universities, which already receive a benefit, or extend to repayments towards Commonwealth student loans.

The Government has also indicated that it will consult on broadening the scope of when individual taxpayers can claim a deduction in respect of education and training expenses they incur themselves so this does not need to be related to their current employment.

The FBT exemption will apply from 2 October 2020.

Superannuation

Superannuation Reforms

The government announced the following reforms which are to apply from 1 July 2021 to improve outcomes for superannuation fund members:

> *Stapled superannuation* - existing superannuation accounts will be "stapled" to a member to avoid the creation of a new account when that person changes their employment. If an employee does not nominate an account at the time they start a new job, employers will be able to obtain information about the employee's existing superannuation fund from the ATO and pay superannuation into this.
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> *Underperforming funds* – MySuper products will be subject to an annual performance test. Funds which underperform will need to report underperformance to members and those which fail consecutive performance test will face restrictions on adding new members.
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> *Best financial interests duty* - 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.

Companies

Loss Carry Back

The Government announced a temporary loss carry-back for eligible companies, similar to the scheme introduced in 2013 in response to the global financial crisis. This measure will allow eligible companies to offset losses incurred in the 2020, 2021 or 2022 financial years against taxed profits made in or after the 2019 financial year. This will allow these companies to generate a refundable tax offset in the year 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 by making the appropriate election in the 2021 or 2022 tax return. Although the scheme commences from the 2019-20 year of income, the first tax refund will only be available when the company's 2021 tax return is lodged. Companies that do not elect to carry back losses will continue to carry forward tax losses for offset against future profits as usual.

R & D Tax Incentives

The Government has announced a number of changes seeking to roll-back the R&D tax offset measures contained in the Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019, and have deferred the start date of those measures to income years starting on or after 1 July 2021. The proposed changes to this Bill differ depending on whether the R&entity is considered to be a small or large R & D entity.

Small R & D Entities (those whose aggregated turnover is less than $20 million) will be eligible for a tax offset of 18.5% above their company tax rate (an increase of 5%) and will no longer have an upper offset limit of $4 million.

Large R & D entities (those whose aggregated turnover is more than $20 million) will move from three intensity-based offset tiers to two, be eligible for a non-refundable R&D tax offset of 8.5% above their company tax rate for notional deductions between 0% and 2% of total expenses or a further 16.5% for notional deductions over 2% of total expenses.

Social Security

$250 cash payments for income support recipients

Two separate $250 economic support payments will be provided to eligible income support recipients. The first payment will be made from November 2020 and the second from early 2021. Eligible recipients will include those receiving the following payments or holding one of the following cards:

- 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.