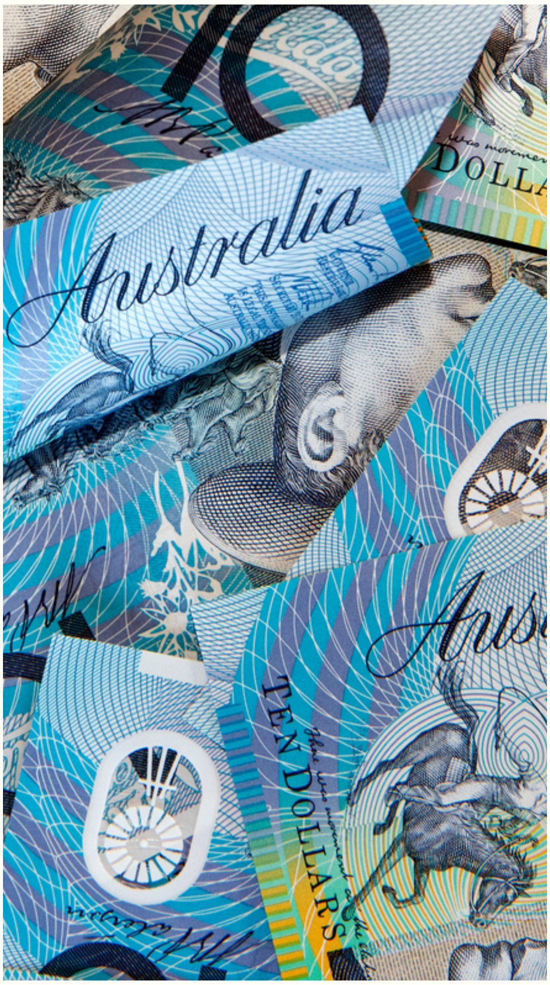
FEDERAL BUDGET OCTOBER 2022

Temporary Full Expensing Not Extended

As currently legislated, Temporary Full Expensing (TFE) is due to end at 30 June 2023. TFE allows businesses to claim a 100% deduction for the cost of depreciating assets. In the lead up to the Federal Budget Australian business groups ran a campaign of budget submissions and lobbying calling for TFE to be extended permanently. The measure was not extended in the Budget.



TFE has allowed many businesses to bring forward business investment and reinvest, what would have otherwise been tax payable, into their business to create greater economic growth.

The danger for many businesses, thanks to global supply issues, is that they may have ordered an item of machinery for their business in early 2022 with the promise of it arriving by early 2023. As is now the norm, the delivery date gets pushed back further and further and if not on hand and ready for use by 30 June 2023, the investment which also created a tax benefit is now potentially a tax issue. The potential tax effect and cost of the same transaction before and after TFE ends is illustrated below:

ON HAND READY FOR USE	PRE 30/6/2023	POST 30/6/2023
Purchase Price of Asset	1,000,000	1,000,000
Depreciation Rate Year 1	100%	15%
Allowable Deduction	1,000,000	150,000
Tax Saving at 30%	300,000	45,000
Trade In Value of Old Asset	500,000	500,000
Tax on Sale of Asset at 30%	150,000	150,000
Tax Saving/(Cost) Year 1	150,000	(105,000)
Net Cash Cost Year 1	350,000	605,000

The Government may announce an extension in the May 2023 Budget, however given the campaigning which has been ignored in the lead up to this Budget, it would be brave to rely on an extension at the 11th hour. Furthermore, with the lack of extension, it is likely business investment in assets covered by TFE will reduce significantly, thus slowing economic growth.

Stage 3 Personal Tax Cuts Remain As Legislated

There was no announcement of changes to the Stage 3 Personal Tax Cuts which are legislated to commence on 1 July 2024. Stages 1 and 2 are already in place and have reduced the tax rates for low and middle income earners. The Stage 3 Personal Tax Cuts revise the 32.5% marginal tax rate to 30% for earnings between $45,000-$200,000. The 37% marginal rate will be completely removed. Incomes over $200,000 will continue to be taxed at a marginal rate of 45%.

The tax rate of middle income earners will thereafter be more closely aligned to the top company tax rate of 30%.

The following table illustrates the legislated tax rates and income thresholds from 1 July 2024 for Australian resident tax payers:

Low and Middle Income Tax Offset Not Extended

The Low and Middle Income Tax Offset (LMITO) has not been extended for the 2022/23 financial year. The previous Government had increased LMITO by $420 for the 2021/22 income year so that individuals earning up to $126,000 received a maximum LMITO up to $1,500.

While the Low Income Tax Offset remains for those earning up to $66,667, individuals could see a tax hit of between $675-$1,500. If this offset had been factored into the individual's PAYG withholding, this may result in tax payable on lodgement of their tax return.

Three-Year Cycle For SMSF Audits Abandoned

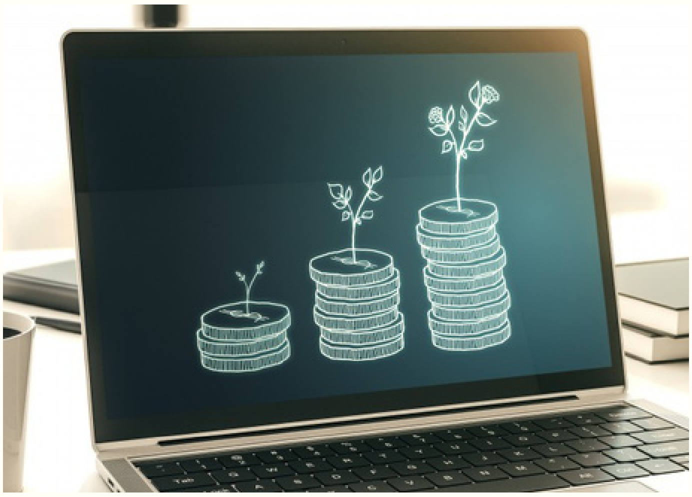
The Government will not proceed with the proposal to change the annual audit requirement for self-managed superannuation funds to allow a three-yearly cycle for funds with three consecutive years of clear audit reports and on time lodgements.

TAXABLE INCOME	TAX PAYABLE
Up To $18,200	Nil
$18,201-$45,000	19% of excess over $18,200
$45,001-$200,000	$5,092 plus 30% of excess over $45,000
$200,000 Or More	$51,592 plus 45% of excess over $200,000

Super downsizer contributions eligibility age reduced to 55

The minimum age for making superannuation downsizer contributions will be lowered to 55 years old (from 60). The proposed reduction in the eligibility age will allow individuals aged 55 or over to make an additional non-concessional super contribution of up to $300,000 from the proceeds of selling their main residence outside of the existing contribution caps. Either the individual or their spouse must have owned the home for 10 years.

The maximum downsizer contribution is $300,000 per contributor (therefore $600,000 for a couple), although the entire contribution must come from the capital proceeds of the sale price.



Regional First Home Buyers Guarantee Scheme

The Regional First Home Buyers Guarantee will be established with the aim of encouraging home ownership in regional locations. It will apply to eligible citizens and permanent residents who have lived in a regional location for more than 12 months to purchase their first home in that location with a minimum 5% deposit.

Paid Parental Leave Scheme Expansion

The Government will expand the Paid Parental Leave (PPL) scheme from 1 July 2023 so that either parent is able to claim the payment and both parents are allowed to receive the payment if they meet the eligibility criteria. Currently PPL provides up to 18 weeks pay at the National Minimum Wage (currently $812.45 per week) for eligible mothers. Fathers/partners are currently eligible for 2 weeks pay at the National Minimum Wage, making a total of 20 weeks.

From 1 July 2024, the Government will start expanding the scheme by two additional weeks a year until it reaches 26 weeks from 1 July 2026. Both parents will be able to share the leave entitlement, with a proportion maintained on a "use it or lose it" basis, to encourage both parents to access the scheme and to share the caring responsibilities more equally. Sole parents will be able to access the full 26 weeks.

Child Care Subsidy Increase

Child Care Subsidy (CCS) rates will increase up to 90 per cent for eligible families earning less than $530,000 from July 2023. Families will continue to receive existing higher subsidy rates of up to 95 per cent for any additional children in care aged 5 and under.

CCS rates will lift from 85% to 90% for families earning less than $80,000. Subsidy rates will then taper down one percentage point for each additional $5,000 in income until it reaches 0% for families earning $530,000.

No Announcement on Division 7A Reform Start Date

Division 7A governs the use of company funds and assets by shareholders and their associates. Such use regularly occurs where businesses are trading through a company structure and the owners use the funds or assets for personal purposes or where a trust distribution is made to access the lower company tax rate.

Following the report completed by the Board of Taxation in late 2014, the Federal Government announced in both the 2016/17 and 2018/19 budget that reform to Division 7A would be completed. The reforms to Division 7A were initially intended to be implemented from 1 July 2019 but have been continually deferred.

This has resulted in taxpayers having uncertainty of how any amount owing would be dealt with in future years or how to correctly deal with sub-trust arrangements.

Cash Payments Proposal Has Been Abandoned

The 2018-19 Budget measure that proposed introducing a limit of $10,000 for cash payments made to businesses for goods and services has been abandoned.

Small Business Debt And Mental Health Assistance

The Government will provide $15.1 million over two calendar years from 1 January 2023 until 31 December 2024 to extend the Small Business Debt Helpline and the NewAccess for Small Business Owners programs to support the financial and mental wellbeing of small business owners.