Byfields Federal Budget 2020 Newsletter

OVERVIEW

On Tuesday 6 October 2020, the Treasurer delivered the delayed 2020-21 Federal Budget and as expected it was all about Government spending, tax cuts and tax concessions to increase jobs and drive a recovery from the COVID 19 Pandemic.

Whether he has gone far enough, only time will tell but clearly the Treasurer's message of "There is no economic recovery without a jobs recovery" explains the focus on Government spending and tax relief for business spending.

The Government has already provided both JobKeeper and JobSeeker programs and has framed this Budget around the cornerstone of the new JobMaker program.

The key announcements were the bringing forward to 1 July 2020 of the second stage of the personal tax cuts announced last year; providing access to the SBE tax concessions to more businesses; providing new tax write-offs and loss carry backs to almost all businesses, together with a JobMaker Hiring Credit for those businesses moving out of JobKeeper and hiring new employees.

TAXATION

Bringing Forward the Personal Income Tax Cuts from 1 July 2022

The Government will bring forward the legislated increase in the 19% and 32.5% income tax thresholds from 1 July 2022 to 1 July 2020.

Table 1: Proposed personal income tax thresholds from 1 July 2020

2020-21 Marginal Tax Rate	2020-21 Tax Bracket (current)	2020-21 Tax Bracket (proposed)
Nil	Up to $18,200	Up to $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%	$180,000+	$180,000+

The already legislated reduction of the 32.5% marginal tax rate to 30% and removal of 37% personal income tax bracket from 1 July 2024 remains unchanged.

Table 2: 2024-25 personal income tax rates and thresholds

2024-25 Marginal Tax Rate	2024-25 Marginal Tax Bracket
Nil	Up to $18,200
19%	$18,201 - $45,000
30%	$45,001 - $200,000
45%	$200,000+

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Bringing Forward the Increase of Low Income Tax Offset from 1 July 2022

The non-refundable Low Income Tax Offset (LITO) was legislated to increase from the current $445 to $700, starting from 1 July 2022. The legislated increase is proposed to be brought forward to 1 July 2020. As illustrated in the following table, the increased LITO will reduce for taxable income above $37,500 per annum and will cut out for taxable income above $66,667 per annum.

Table 3: Eligibility of LITO

Taxable Income	Tax Offset
Nil to $37,500	Up to $700
$37,500 - $45,000	$700 – [(taxable income - $37,500) x 5 cents]
$45,001 - $66,667	$325 – [(taxable income - $45,000) x 1.5 cents]
$66,667+	Nil

Low and Middle Income Tax Offset Unchanged in the 2020-21 Financial Year

The Government stated that it will retain the Low and Middle Income Tax Offset (LMITO) in the 2020-21 financial year, but will not apply for 2021-22 and future years.

Table 4: Eligibility for LMITO

Taxable Income	Tax Offset
Nil to $37,000	Up to $255
$37,001 - $47,999	$255 + [(taxable income - $37,000) x 7.5 cents]
$48,000 - $89,999	$1,080
$90,000 - $126,000	$1,080 – [(taxable income - $90,000) x 3 cents]
$126,000+	Nil

The LMITO will continue to be received on assessment after the individual lodges their tax return.

Increase to Medicare Levy Low-Income Thresholds

The 2019-20 financial year Medicare Levy low-income thresholds will be indexed for individuals and families.

Table 5: Medicare Levy thresholds

	2019-20	2018-19
Single	$22,801	$22,398
Single eligible for SAPTO	$36,056	$35,418
Family	$38,474	$37,794
Couple eligible for SAPTO	$50,191	$49,304
Additional threshold for each dependent child	$3,533	$3,471

Capital Gains Tax Exemption for Granny Flat Arrangement

Currently, Taxation Ruling 2006/14 outlines the ATO's views on potential Capital Gains Tax (CGT) implications upon a taxpayer entering, surrendering or ending life interest or granny flat types of arrangements. CGT consequences are currently an impediment to the creation of formal and legally enforceable granny flat arrangements. When faced with a potentially significant CGT liability, families often opt for informal arrangements, which can lead to financial abuse and exploitation in the event that the family relationship breaks down.

The Government will provide a targeted CGT exemption for granny flat arrangements where there is a formal written agreement. This measure is intended to remove these CGT impediments, reducing the risk of abuse to vulnerable Australians. The measure will have effect from the first income year after the date of Royal Assent of the enabling legislation.

SUPERANNUATION

Superannuation Reforms

The Government will implement a 'Your Future, Your Super' package to improve outcomes for superannuation fund members. These reforms, commencing 1 July 2021, are broken down into the following four areas:

1. Your super follows you when you change jobs

Your existing superannuation account will be 'stapled' to you to avoid the creation of a new superannuation account if you change employment. If you have an existing superannuation account, your new employer will pay super into that existing account, unless you select another fund.

Employers will be able to obtain information about a new employee's existing superannuation fund from the Australian Taxation Office. A second phase will be introduced from 1 July 2022 where the ATO will enable payroll systems to obtain employee superannuation details to eliminate the need for manual entry.

Where a new employee does not have an existing superannuation account and does not nominate a superannuation fund, the employer will pay the employee's superannuation into the employer's default superannuation fund.

2. Comparing fund performance

By 1 July 2021, a new interactive online YourSuper comparison tool will be available to assist you when deciding which MySuper product best meets your requirements, by being able to compare the performance and fees of all MySuper products.

3. Holding funds to account for under performance

From 1 July 2021 MySuper products will be subject to an annual performance test conducted by the Australian Prudential Regulation Authority based on the net investment performance, with products that have underperformed over two consecutive annual tests prohibited from receiving new members until a further annual test that shows they are no longer underperforming. The annual performance test will be extended to other trustee directed APRA regulated superannuation products from 1 July 2022.

Previously Announced COVID-19 Response Package

Temporary access to superannuation

To support individuals affected by the financial impacts of COVID-19, eligible Australian and New Zealand citizens and permanent residents were able to access up to $10,000 of their superannuation before 1 July 2020 and can access a further $10,000 from 1 July 2020 until 31 December 2020.

Temporarily reducing super minimum drawdown rates

The Government has halved the superannuation minimum drawdown requirements for account-based pensions and similar products for the 2019-20 and 2020-21 income years.

Revised Start Dates for Tax and Superannuation Measures

The start date for the 2018-19 Budget measure to increasing the maximum number of allowable members in SMSFs and small APRA funds from four to six has been revised from 1 July 2019 to the date of Royal Assent of the enabling legislation.

The start date for the 2019-20 Budget measure 'Superannuation - reducing red tape for superannuation funds', which would allow SMSF trustees to choose their preferred method of calculating ECPI, and remove a redundant requirement to obtain an actuarial certificate using the proportionate method, where all members of the fund are fully in the retirement phase for all of the income year, has been revised from 1 July 2020 to 1 July 2021.

FIRST HOME BUYERS

Purchase Cap Lifted

Up to 10,000 more first home buyers will be able to get a loan to build a new home or buy a newly built home with a deposit of as little as 5%. The purchase cap will also be lifted and varies depending on the State and regional area.

AGED CARE

Additional Home Care Packages and Aged Care Funding

The Government will provide an additional 23,000 home care packages over four years from 2020-21 across all package levels.

The Government will also provide additional funding from 2020-21 to improve transparency and regulatory standards in aged care.

Aged Care COVID-19 Response Package

The Government will provide the following support for older Australians throughout the COVID-19 pandemic:

- ❖ Continuing the COVID supplement in 2020-21 to assist all Commonwealth-funded residential aged care providers and home care providers with the cost of operating during the COVID-19 pandemic;
- ❖ Extending the Workforce Retention Bonus Payment for two years from 2020-21 to support the direct care workforce;
- ❖ Providing additional funding in 2020-21 to support residents of aged care facilities who temporarily leave care to live with their families (Emergency Leave).

CENTRELINK / DEPARTMENT OF VETERANS AFFAIRS (DVS)

Economic Support Payments

The Government proposes to provide two $250 economic support payments to be made from early December 2020 and early March 2021 to eligible recipients of the following payments and concession cards:

- ❖ Age Pension
- ❖ Disability Support Pension
- ❖ Carer Payment
- ❖ Carer Allowance
- ❖ Pensioner Concession Card (PCC)
- ❖ Commonwealth Seniors Health Card
- ❖ Eligible DVA payments
- ❖ DVA Gold Card
- ❖ DVA Seniors Card
- ❖ Family Tax Benefit

If you are eligible for one of the above payments/concession cards on 27 November 2020, you will be eligible for the December 2020 payment. If you are eligible for one of the above payments/concession cards on 26 February 2021, you will be eligible for the March 2021 payment.

These economic support payments are exempt from taxation and will not count as income for the purposes of any income support payment.

Veterans

The Government proposes to simplify payment arrangements for veterans from 20 September 2022.

- ❖ This includes removing the DVA Disability Pension rent test for clients who receive Rent Assistance (RA) from DVA.
- ❖ It also includes the exemption of DVA Disability Pensions from the income test for Centrelink income support payments, which means the Defence Force Income Support Allowance (DFISA) paid by the DVA to Centrelink clients is no longer needed.

Digital Skills for Older Australians

The Government will provide the Be Connected Program until 2023-24 to support Australians aged over 50 to gain the skills they need to participate in the digital economy.

Pharmaceutical Benefits Scheme (PBS)

The Government has proposed a few measures regarding the PBS from 2020-21, including:

- Implementing a revised and improved approach to the administration of PBS rebate receipts associated with medicines that have Special Pricing Arrangements; and
- Providing over four years new and amended listings on the Pharmaceutical Benefits Scheme (PBS) and the Repatriation Pharmaceutical Benefits Scheme (RPBS).

The PBS is available for clients receiving the Pensioner Concession Card, Health Care Card, Low Income Health Care Card and Commonwealth Seniors Health Card.

BUSINESS TAX CHANGES

Temporary Immediate Tax Write-Off of Capital Assets

Businesses with an aggregated turnover of less than $5 billion will be able to deduct the full cost of depreciable assets acquired from 7:30pm AEDT on 6 October 2020 and first used or installed ready for use by 30 June 2022.

This is a significant expansion of the current instant asset write off provisions that limit the write off to businesses with an aggregated turnover of less than $500 million for assets costing less than $150,000 and first used or installed ready for use by 31 December 2020.

The new measures will also seek to expand the current instant asset write off rules to allow assets to be first used or installed by 30 June 2021.

Under the existing rules, businesses can deduct the cost of second hand assets. However, under the proposed measures, only businesses with an aggregated turnover of $50 million or less will be able to deduct the cost of second hand assets. The current rules and the proposed measures will operate concurrently until 31 December 2020, whereby:

- Businesses with an aggregated turnover of less than $50 million will be able to deduct the cost of both new and second hand assets first used or installed by 30 June 2022.
- Businesses with an aggregated turnover between $50 million and less than $500 million will be able to deduct the cost of both new and second hand assets acquired by 31 December 2020 and first used or installed by 30 June 2021. For assets acquired from 1 January 2021, these businesses will be able to deduct the cost of new assets only first used or installed by 30 June 2022.
- Businesses with an aggregated turnover between $500 million and less than $5 billion will be able to deduct the cost of new assets only acquired from 6 October 2020 and first used or installed by 30 June 2022.

The new measures will also allow businesses with an aggregated turnover of less than $10 million to deduct the balance of their simplified depreciation pool balance at the end of 30 June 2021. This would apply in instances where assets costing more than $150,000 were acquired prior to 6 October 2020 and were allocated to the small business pool.

The Government has stated that this measure will apply to 99% of businesses and is therefore a welcome boost for businesses that have the confidence to acquire assets to assist in their recovery. In WA many businesses are a number of steps along that path so we expect that this change will increase the appetite to buy business assets, thereby improving the lot of many businesses involved across the manufacture, assembly, installation, sale or service of these assets.

Increase of the Small Business Entity Turnover Threshold

The Government will expand access to a range of small business tax concessions by increasing the Small Business Entity (SBE) aggregated turnover threshold for these concessions from $10 million to $50 million. In particular, businesses with an aggregated turnover of $10 million or more but less than $50 million will be able to utilise the following tax concessions from the following dates:

Tax Concessions	Start Date
Immediate deductions on certain start-up expenses and certain prepaid expenditure	1 July 2020
FBT exemption on car parking fringe benefits and multiple work-related portable electronic devices, such as phones or laptops, provided to employees	1 April 2021
Use simplified trading stock rules	1 July 2021
Report and pay PAYG instalments based on GDP adjusted notional tax	1 July 2021
Settling excise duty and excise-equivalent customs duty monthly on eligible goods	1 July 2021
Time limit for amendments of income tax assessments reduced from 4 to 2 years	1 July 2021
Access to the Commissioner's discretion to create a simplified accounting method determination for GST purposes	1 July 2021

The proposed extension of the small business concessions above by increasing the aggregated turnover threshold to $50 million is welcome. However, the Government has not gone far enough. Other small business concessions, such as the Small Business Restructure Rollover Relief, should also be extended to businesses with the aggregated turnover between $10 million and $50 million.

Loss Carry-Back for Companies

Currently, a loss making company can only utilise tax losses when the company ultimately generates taxable income. Back in 2013, the Government recognised the need for companies to be able to "carry back" tax losses to earlier profitable income years. The loss carry-back legislation was introduced in the 2013 year only to be repealed in the 2014 year.

The 2021 Budget seeks to reinstate these rules.

The rules will allow companies with an aggregated turnover of less than $5 billion to apply tax losses in the 2020, 2021 and 2022 income years against profits made in the 2019 year onwards. Such loss-making companies will need to elect to use the rules which will then generate tax refunds when they lodge their 2021 and 2022 income tax returns.

The losses carried back cannot exceed taxable income in the prior year (i.e. it cannot create a tax loss in the prior year) and the carry-back amount must not create a franking account deficit (where prior year franked dividends have been declared in excess of the amended tax payable).

Loss carry-back rules have already been adopted by a number of OECD countries and will be welcomed in Australia. At this stage, the measures are only temporary and are proposed to apply until the 2022 income year.

Most developed countries have loss carry back provisions so these are welcomed, however rather than make them temporary to 2022, the opportunity exists to make them part of the ongoing tax system. We also query why a business that made a tax loss in 2020, after a tax profit in 2019 has to wait until it lodges its 2021 tax return to claim the tax refund. Australian businesses need that refund now, hopefully when the legislation is introduced it will enable businesses to either amend already lodged 2020 tax returns, or make the claim in their 2020 tax return.

JobMaker Hiring Credit

The Government is providing $4.0 billion over three years from 2020-21 to accelerate employment growth by supporting businesses in hiring 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.

Key conditions are:

- ❖ The job must be an additional job based on the businesses total employee headcount at 30 September 2020 and additional payroll from the September 2020 quarter;
- ❖ Employers must have an ABN, be up to date with tax lodgements, be registered for PAYG and report through Single Touch Payroll;
- ❖ New employees must have previously received either JobSeeker, Youth Allowance or parenting payment for at least 1 month out of the 3 months prior to them being hired; and
- ❖ New employees must work a minimum 20 hours per week, averaged over a quarter.

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.

The credit is claimed quarterly in arrears by the employer from the ATO from 1 February 2021, with employers having to check their eligibility each quarter.

This credit will encourage businesses that are recovering to hire new employees and specifically targets younger employees who are currently unemployed.

Miscellaneous FBT Concessions

In addition to the extension of certain FBT exemptions to medium sized businesses as covered above, the Government has also announced that employers will be able to use existing corporate records to satisfy their record-keeping requirements. The proposed measure is aimed at reducing the FBT compliance burden for employers that are currently required to keep FBT-specific records, such as employee declarations and other prescribed records, for up to five years. In time, we expect that the ATO will issue guidance on the types of corporate records that will satisfy the new requirement.

The proposed measure will apply from the start of the first FBT year (1 April) following the Royal Assent of the relevant legislation.

As previously announced, the Government has provided that employer-provided retraining and reskilling activities to employees will be exempt from FBT. Under the current FBT law, employers are subject to FBT for the provision of training to its employees that is not sufficiently connected to their current employment. The Budget provides an example where an employer that retrains its sales assistant in web design and redeploys the employee to an online marketing role in the business can be liable for FBT under the current FBT law. Instead, the proposed measure will encourage the employer to retain the employee without liable for FBT.

However, the FBT exemption will not extend to:

- retraining acquired by way of a salary packaging arrangement,
- training provided through Commonwealth supported places at universities (which already receive a benefit), or
- repayments towards Commonwealth student loans.

In addition, the Government will also undertake consultation on allowing an individual to deduct education and training expenses incurred by the individual personally where the expenses are not related to their current employment. 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.

The FBT exemption will apply from 2 October 2020 (i.e. the date of announcement).

In practice, where employers move their current employees to a new position and then provide the necessary training for them, it is arguable that the employers can rely on the existing FBT exemption for the training benefits provided. Further, the proposed FBT exemption will not be available for retraining costs that are salary sacrificed by employees. In practice, this limits the usefulness of the initiative to employers.

Instead, it may have been more beneficial for the Government to extend the deductibility of self-education and training expenses incurred by individuals personally, where the expenses are not related to their current employment (or previous employment if they are made redundant). Employers would then be able to rely on the Otherwise Deductible rule if they paid for the training or provided a salary sacrifice option for their current employees under this initiative.

byfields business advisers

For further information regarding these proposed changes, speak to your Byfields accountant who will look at your personal circumstances and assess how you will be affected.

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