ACCRUE®
CLEAR DECISIVE PROVEN

FEDERAL BUDGET 2020 EDITION

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Highlights from the 2020 Federal Budget

Some of the measures contained in the Budget have already been legislated, having been passed by both houses of parliament on the 9 October 2020. The other announcements are not yet law.

Personal Taxation

The below changes have been legislated.

Low Income Tax Offset

- For the 2020/2021 financial year, the government will increase the Low Income Tax Offset. The non-refundable tax offset will increase from a previous maximum of $445 to $700.
- The offset will be reduced at a rate of 5 cents per dollar, for taxable incomes between $37,500 and $45,000. The offset will reduce at a rate of 1.5 cents per dollar, for taxable incomes between $45,000 and $66,667.

Low and Middle Income Tax Offset

- The government has announced that this tax offset will continue to apply for the 2020/2021 year. The maximum tax offset of $1,080 will be available to taxpayers with taxable incomes between $48,000 and $90,000.

Changes to Personal Income Tax Rates

- From 1 July 2020, the government will:
  - Increase the upper threshold of the 19% personal tax bracket from $37,000 to $45,000; and
  - Increase the upper threshold of the 32.5% personal income tax bracket from $90,000 to $120,000.

Business Taxation

Uncapped immediate write-off for depreciable assets

The below announcement has been legislated.

- Businesses with an aggregated annual turnover of less than $5 billion will be able to claim an immediate deduction for the full cost of an eligible depreciable asset, in the year the asset is first used or is installed ready for use, where the following requirements are satisfied:
  - The asset was acquired from 7.30pm AEDT on the 6 October 2020.
  - The asset was first used or installed ready for use by the 30 June 2022.
  - The asset is a **new depreciable asset** or is the cost of an **improvement** to an existing eligible asset, unless the taxpayer qualifies as a small or medium sized business (aggregated turnover less than $50 million), in which case the asset can be **second hand**.
- Small businesses (i.e. 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 (i.e. up to 30 June 2022).

Expanding access to Small Business Tax Concessions

The below announcement has been legislated.

- The government has announced that it will expand the concessions available to Medium sized entities to provide access to up to **ten** Small Business Concessions.
- A Medium sized entity is an entity with an aggregated annual turnover of at least $10 million and less than $50 million.
- The expanded concessions will apply as follows:
  - **From 1 July 2020**, eligible businesses will be able to immediately deduct certain start-up expenses and certain prepaid expenditure.
  - **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.
  - **From 1 July 2021**:
    - Eligible businesses will be able to access the simplified trading stock rules, remit PAYG instalments on GDP adjusted notional tax and settle exercise duty and exercise-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 ATO's power to create a simplified accounting method determination for GST purposes, will be expanded to apply to businesses below the $50million aggregated annual turnover threshold.

JobMaker Hiring Credit

The government will introduce a JobMaker Hiring Credit to incentivise businesses to take on additional young job seekers.

- From 7 October 2020, eligible employers will be able to claim $200 a week for each additional eligible employee they hire aged 16 to 29 years old, and $100 a week for each additional eligible employee aged 30 to 35 years old. New jobs created until 6 October 2021 will attract the credit for up to 12 months from the date the new position is created.

- 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.
- The amount of the credit is capped at $10,400 for each additional new position created. Furthermore, the credit claimed by the employer cannot exceed the amount of the increase in payroll for the reporting period in question.

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 either:
  - 16 to 29 years old to attract the $200 payment; or
  - 30 to 35 years old to attract the $100 payment.
- have worked a 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, 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.

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 PAYG 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.

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 hires.

Changes Affecting Companies

Temporary loss carry back for eligible companies

The below announcement has been legislated.

- The government has announced that it will introduce measures to allow companies with a 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.
- 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.

Clarifying the corporate residency test

- The corporate residency rules are fundamental to determining a company's Australian income tax liability. The government will amend the law to provide that a company that is incorporated offshore will be treated as an Australian tax resident if it has a 'significant economic connection to Australia'. This test will be satisfied where both the company's core commercial activities are undertaken in Australia and its central management and control is in Australia.
- The measure will have effect from the first income year after the date of Royal Assent of the legislation, but taxpayers will have the option of applying the new law from 15 March 2017.

Meetings conducted via virtual attendance

To reduce regulatory barriers, the government has announced it will undertake public consultation on making permanent changes to the Corporations Act 2001. These changes would allow companies to call and conduct meetings electronically (with a quorum achievable through virtual attendance of shareholders and officers), and also to provide certainty that company officers can electronically execute a document.

R & D Tax Incentive

If legislated the announced changes will commence from 1 July 2021.

- For companies with a turnover of less than $20 million, there will be no cap on the amount of refundable R & D tax offset a company can claim.
- The refundable R & D tax offset for small companies will also be set at 18.5% plus the company tax rate.
- Large companies with an annual turnover of $20 million or more, will face a simplified two-tier intensity approach.

FBT Changes

FBT exemption for retraining and reskilling employees

- 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.
- The measure is designed to encourage employers to assist redundant workers to transition to new employment opportunities within or outside an employer's business, without triggering an FBT liability.
- The government will also consult on allowing an individual to claim a tax deduction for education and training expenses they incur themselves, where the expense is not related to their current employment (e.g. where the expense relates to future employment).

Reducing the compliance burden of FBT record keeping

- The government will provide the ATO with the power to allow employers to rely on existing corporate records, rather than employee declarations and other prescribed records, to finalise their FBT returns. This measure will have effect from the start of the first FBT year (i.e. on 1 April) after the date of Royal Assent of the relevant legislation.
- Currently, the FBT legislation prescribes the form that certain records must take, and forces employers to create additional records in order to comply with FBT obligations.

Other Budget Announcements

Removing CGT for 'Granny Flat Arrangements'

- A targeted CGT exemption will apply from 1 July 2021 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 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.
- The changes 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.

Superannuation Reforms

- None of the proposed reforms impact Self-Managed Superannuation Funds (SMSF's).
- The proposed reforms are directed at MySuper default superannuation products. The government has identified structural flaws in the current system which has led to unnecessary fees, insurance premiums being paid on multiple accounts, members paying too much in fees, underperforming products and 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 superannuation account will be 'stapled' to a member to avoid the creation of a new account when the 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 obligation on superannuation trustees to ensure their actions are consistent with members retirement savings being maximized. Trustees will be required to comply with a new duty to act in the best financial interest of members.

Insolvency Reforms to Support Small Business

The government will implement certain insolvency reforms, effective from 1 January 2021 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 and 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).

If you have any questions in respect of the Federal Budget announcements and how they may impact your circumstances please contact our office.

Disclaimer
This publication is a guide only and does not represent advice. Anybody intending to apply the information to practical circumstances should contact our office in order to receive advice specific to your circumstances.

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