Road to Recovery?

Budget 2020-21
Update

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Road to Recovery?

The 2020-21 Federal Budget is a road to recovery paved with cash.

Key initiatives include:

- Personal income tax cuts from 1 July 2020
- A $4 billion 'JobMaker' Hiring Credit to encourage businesses to take on additional employees aged 16 to 35 years old
- $110 billion in infrastructure investment over 10 years
- Immediate deductions for business investment in capital assets
- Changes to how companies can manage losses
- Access to generous tax concessions for a wider range of businesses

The Budget also contains two additional Economic Support payments to pensioners and other eligible recipients to drive money back into the economy.

By comparison to many, Australia has managed the COVID-19 pandemic well, but good management isn't enough to protect us from the $213.7 billion deficit in 2020-21. The Government has taken to heart the old adage, "You have to spend money to make money" to trade our way out of a black hole.

Some of the measures are aimed at addressing the harsh lessons COVID-19 has taught us and seek to centralise production back in Australia to ensure our industries can be self-reliant.

Outside of the big ticket tax measures, what is striking about this Budget is the sheer volume of initiatives it funds - too many to itemise in this update. Many of the initiatives aim to improve how Government interacts with the community and business in particular. This funding is focussed on streamlining interaction and compliance with Government requirements and investing in the IT infrastructure required to digitise the compliance process.

The final comments in the Treasurer's Budget speech paint a cautionary tale. The focus right now is on the path to growth and stabilising debt in an effort to boost consumer and business confidence. However, once "recovery has taken hold and the unemployment rate is on a clear path back to pre-crisis levels" of below 6%, the second phase will kick in - the deliberate shift from providing temporary and targeted support to stabilising debt.

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Business & Employers

JobMaker Hiring Credit

Date of effect	From 7 October 2020 for 12 months

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.

Eligible employers 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 paid quarterly in arrears. It 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.

Employers will need to demonstrate that the new employee will increase overall employee headcount and payroll.

To be eligible, the employee will need to have worked for a minimum of 20 hours per week, averaged over a quarter, and 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.

Immediate deductions for investment in capital assets

Date of effect	Acquisition of eligible capital assets from 7:30pm AEDT on 6 October 2020 and first used or installed by 30 June 2022

The Government is really keen for business to invest. This measure enables businesses with an aggregated turnover of less than $5 billion to fully expense the cost of new depreciable assets and the cost of improvements to existing eligible assets in the first year of use. This means that an asset’s cost will be fully deductible upfront rather than being claimed over the asset’s life.

While many businesses were already eligible for an instant asset write-off for asset purchases of up to $150,000, this measure does not cap the asset’s cost, and eligibility for the higher instant asset write-off has been significantly broadened and extended (the existing $150,000 instant asset write-off applies to businesses with turnover less than $500 million and will not apply to purchases after 31 December 2020).

Second-hand assets

For businesses with an aggregated turnover under $50 million, full expensing also applies to 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 existing enhanced instant asset write-off. Businesses that hold assets eligible for the enhanced $150,000 instant asset write-off will have an extra six months, until 30 June 2021, to first use or install those assets.

Small business pooling

Small business entities (with aggregated annual turnover of less than $10 million) using the simplified depreciation rules can deduct the balance of their simplified depreciation pool at the end of the income year while full expensing applies. 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.

Ability for companies to carry-back losses

Date of effect	Losses from the 2019-20, 2020-21 or 2021-22 income years

Companies with an aggregated turnover of less than $5 billion will be able to carry back losses from the 2019-20, 2020-21 and 2021-22 income years to offset previously taxed profits in the 2018-19, 2019-20 and 2020-21 income years.

Under this measure tax losses can be applied against taxed profits in a previous year, generating a refundable tax offset in the year in which the loss is made. The amount carried back can be no more than the earlier taxed profits, limiting the refund by the company's tax liabilities in the profit years. Further, the carry back cannot generate a franking account deficit meaning that the refund is further limited by the company's franking account balance.

The tax refund will be available on election by eligible businesses when they lodge their 2020-21 and 2021-22 tax returns.

Currently, companies are required to carry losses forward to offset profits in future years. Under the proposed amendments, companies that do not elect to carry back losses can still carry losses forward as normal.

This measure will interact with the Government's announcement to allow full expensing of investments in capital assets. The new investment will generate significant tax losses in some cases which can then be carried back to generate cash refunds for eligible companies.

Access to tax concessions extended to businesses up to $50m

Date of effect	Three phases: 1 July 2020, 1 April 2021, 1 July 2021

Announced pre Budget, a range of generous tax concessions normally only available to small and medium businesses, will be available to businesses with an aggregated turnover of up to $50 million.

The expanded concessions will be rolled out in three phases:

From 1 July 2020	**Immediate deduction for certain start-up expenses** Eligible new businesses can immediately deduct a range of professional expenses required to start up a business – such as professional, legal and accounting advice as well as amounts paid to Government agencies to set up the business entity. **Immediate deduction for prepaid expenditure** Eligible businesses can choose to claim an immediate deduction for prepaid expenses where the payment is for a period of service which is 12 months or less and ends in the next income year.
From 1 April 2021	**FBT cark parking exemption** Eligible employers will be exempt from FBT on certain car parking benefits provided to employees. **FBT exemption on portable electronic devices** Eligible employers will be able to provide more than one portable electronic device that is mainly for work use to an employee in a single FBT year and apply an FBT exemption (e.g., phones and laptops).
From 1 July 2021	**Simplified trading stock** Eligible businesses can choose not to conduct a stocktake if there is a difference of less than $5,000 between the opening value of trading stock and a reasonable estimate of the closing value of trading stock at the end of the income year. **Two-year amendment period** Eligible businesses will have a two-year amendment period apply to income tax assessments, excluding entities that have significant international tax dealings or particularly complex affairs.

The eligibility turnover thresholds for other small business tax concessions will remain at their current levels.

FBT exemption for retraining and reskilling workers

Date of effect	2 October 2020

Announced pre Budget, the Government will provide a Fringe Benefits Tax (FBT) exemption for employer-provided retraining and reskilling, for employees who are redeployed to a different role in the business.

Currently, if an employer provides a benefit to an employee that is not directly related to their current job, FBT applies. This measure enables employers to help employees reskill for a new role or another role with a different employer, without incurring FBT.

The exemption does not apply to retraining acquired through salary packaging or training provided through Commonwealth supported places at universities. The exemption also does not extend to repayments towards Commonwealth student loans.

100,000 new apprenticeships

Date of effect	5 October 2020

Announced pre Budget, from 5 October 2020 a business (or Group Training Organisation) that takes on a new Australian apprentice will be eligible for a 50% wage subsidy, regardless of geographic location, occupation, industry or business size. The scheme will be available until the 100,000 cap has been reached.

Under the subsidy, employers will be eligible for up to 50% of the wages of a new or recommencing apprentice or trainee for the period up to 30 September 2021. The maximum subsidy is $7,000 per quarter.

The subsidy is paid in arrears and is available for wages paid from 5 October 2020 to 30 September 2021.

Eligible businesses are those that:

- Engage an Australian Apprentice between 5 October 2020 and 30 September 2021, and
- The Australian Apprentice or trainee is undertaking a Certificate II or higher qualification, and has a training contract that is formally approved by the state training authority.

R&D tax concessions injection and simplification

Date of effect	1 July 2021

The Government has enhanced its proposed shake-up of the R&D system injecting an additional $2 billion through the Research and Development (R&D) Tax Incentive.

Currently, the R&D Tax Incentive provides the following in respect of eligible R&D activities (for the first $100 million of eligible expenditure):

- a 43.5% refundable offset for eligible companies with aggregated annual turnover less than $20m; and
- a 38.5% non-refundable tax offset for all other eligible companies.

Note that the *Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019*, before Parliament at the time the Federal Budget was released, proposed various amendments to the R&D Tax Incentive to take effect from the 2019-20 income year. The Government is now delaying (by two years) and enhancing the proposed changes.

Companies under $20m turnover

For companies with an aggregated annual turnover less than $20 million:

- The refundable R&D tax offset is being set at 18.5 percentage points above the claimant's company tax rate (an increase from 13.5 percentage points above the claimant's company tax rate as previously announced)
- The previously announced annual $4 million cap on cash refunds for R&D claimants **will not proceed**.

Companies over $20m turnover

For companies with aggregated annual turnover of $20 million or more, the previously announced R&D intensity premium, originally intended to apply across three tiers, will now apply across two tiers.

Note the intensity premium will tie the rates of the non-refundable R&D tax offset to the incremental intensity of R&D expenditure as a proportion of total expenditure for the year. The marginal R&D premium will be the company's tax rate plus:

- 8.5 percentage points above the claimant's company tax rate for R&D expenditure between 0 per cent and 2 per cent R&D intensity for larger companies
- 16.5 percentage points above the claimant's company tax rate for R&D expenditure above 2 per cent R&D intensity for larger companies (the previously announced intensity premiums varied from 4.5 to 12.5 percentage points).

The R&D expenditure threshold - the maximum amount of R&D expenditure eligible for concessional R&D tax offsets - will be increased as intended from $100 million to $150 million per annum.

Individuals

Personal income tax cuts

Date of effect	1 July 2020

As widely predicted, the Government has brought forward stage 2 of its planned income tax cuts by two years. Originally intended to apply from 1 July 2022, the tax cuts will come into effect from 1 July 2020 (subject to the passage of the legislation).

Stage 3 of the Personal Income Tax Plan that simplifies and flattens the personal income system remains scheduled for 2024-25.

	Tax thresholds		
Tax rate	**Current**	**From 1 July 2020**	**From 1 July 2024**
0%	$0 - $18,200	$0 - $18,200	$0 - $18,200
19%	$18,201 - $37,000	$18,201 - **$45,000**	$18,201 - $45,000
30%			**$45,001 - $200,000**
32.5%	$37,001 - $90,000	**$45,001** - **$120,000**	
37%	$90,001 - $180,000	$120,001 - $180,000	-
45%	>$180,000	>$180,000	>$200,000
LITO	Up to $445	**Up to $700**	Up to $700

Bringing forward the personal income tax plan will:

- Increase the top threshold of the 19% tax bracket to $45,000 (from $37,000)
- Increase the top threshold of the 32.5% tax bracket to $120,000 (from $90,000)
- Increase the low income tax offset from $445 to $700

In addition, the LMITO (low and middle income tax offset), which provides a reduction in tax of up to $1,080 for individuals with a taxable income of up to $126,000, will be retained for 2020-21. This measure was to be removed at the commencement of stage 2 of the reforms from 2022-23.

$250 economic support payments

Date of effect	November 2020 and early 2021

Two additional economic support payments of $250 each will be made to eligible recipients of the following payments and health care card holders:

- 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
- Eligible Veterans' Affairs payment recipients and concession card holders.

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

Capital gains tax removed from 'granny flats'

Date of effect	1 July 2021 subject to the passage of the legislation

At present, if you enter into a formal granny flat arrangement with a relative, such as an elderly parent, there is a risk of capital gains tax (CGT) applying.

Announced pre Budget, this measure provides a targeted CGT exemption for granny flats under certain conditions. Under the arrangement, 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 exemption only applies to family arrangements or other personal ties and will not apply to commercial rental arrangements.

Your Superannuation

Superannuation accounts ‘stapled’ to an individual

Date of effect	From 1 July 2021

This reform will ensure individuals continue to use their existing superannuation fund when they change jobs. The fund will be “stapled” to the individual to prevent the duplication of superannuation fund accounts when changing employers.

From 1 July 2021:

- If an employee does not nominate an account at the time they start a new job, employers will pay their superannuation contributions to their existing fund.
- Employers will obtain information about the employee’s existing superannuation fund from the ATO.
- 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 superannuation contributions into the employee’s account.
- If an employee does not have an existing superannuation account and does not make a decision regarding a fund, the employer will pay the employee’s superannuation into their nominated default superannuation fund.

The Government expects that future enhancements will enable payroll software developers to build systems to simplify the process of selecting a superannuation product for both employees and employers through automated provision of information to employers.

The Regulators

There are funding increases provided to many regulators to deal with COVID-19 and other regulatory issues:

- $305.9 million additional funding to the Australian Taxation Office for the delivery of the next phase of the JobKeeper Payment and the JobMaker Hiring Credit
- $104.9 million to AUSTRAC over four years from 2020-21 to strengthen its capacity to combat serious financial crime and to protect Australia's financial system from criminal activities.
- $241.2 million for the Australian Bureau of Statistics to maintain Australia's statistics gathering and analysis capabilities to better track Australia's COVID-19 economic recovery
- $116.5 million for the Australian Competition and Consumer Commission (including capital funding of $32.9 million) to better protect consumers and small businesses
- $106.4 million for the Treasury to continue to implement the Government's COVID-19 response and track economic recovery
- $28.8 million to the Australian Prudential Regulation Authority to boost its capacity to respond to risks within the financial system, with costs to be recovered from industry.
- $15 million in additional funding for serious and organised crime in the tax and superannuation system. This extends the 2017-18 Budget measure for another two years to 30 June 2023

The Economy

We knew there was going to be a big black hole of a deficit. The Treasurer revealed $213.7 billion in 2020-21, with an expectation of this falling to $66.9 billion by 2023-24.

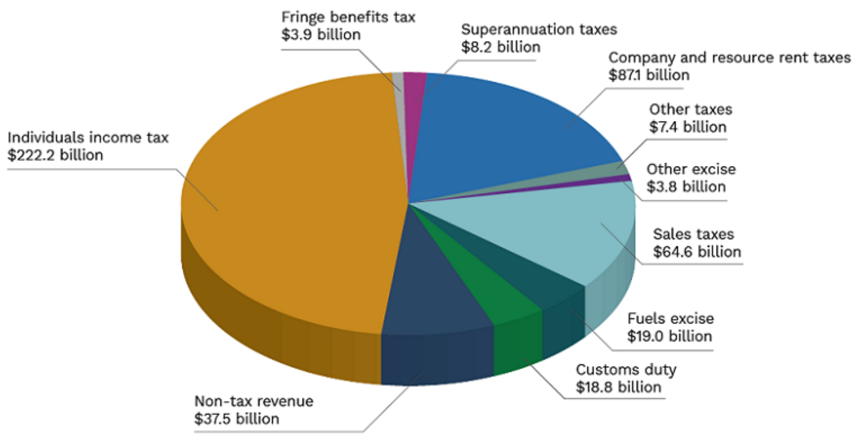
Australia's economy contracted by 7% in the June quarter.

Gross debt will increase to $872 billion (45% of GDP) this year and stabilise at around 55% of GDP in the medium term.

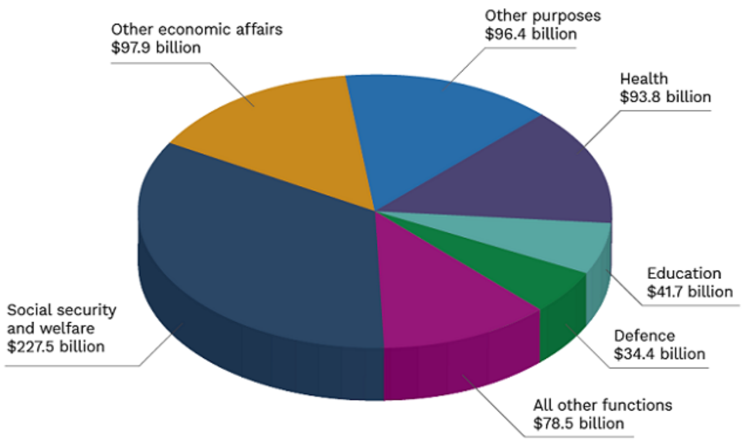
Net debt will increase to $703 billion (36% of GDP) this year before peaking at 44% of GDP in June 2024, and declining to less than 40% of GDP over the medium term.

GDP is forecast to fall by 3¾% this calendar year and the unemployment rate is forecast to peak at 8% in the December quarter. Next calendar year, GDP is forecast to grow by 4¼%, and the unemployment rate is forecast to fall to 6½% in the June quarter 2022.

Where revenue comes from (2020-21)



Where money is spent (2020-21)



Source: 2020-21 Federal Budget Appendix B: Revenue and spending