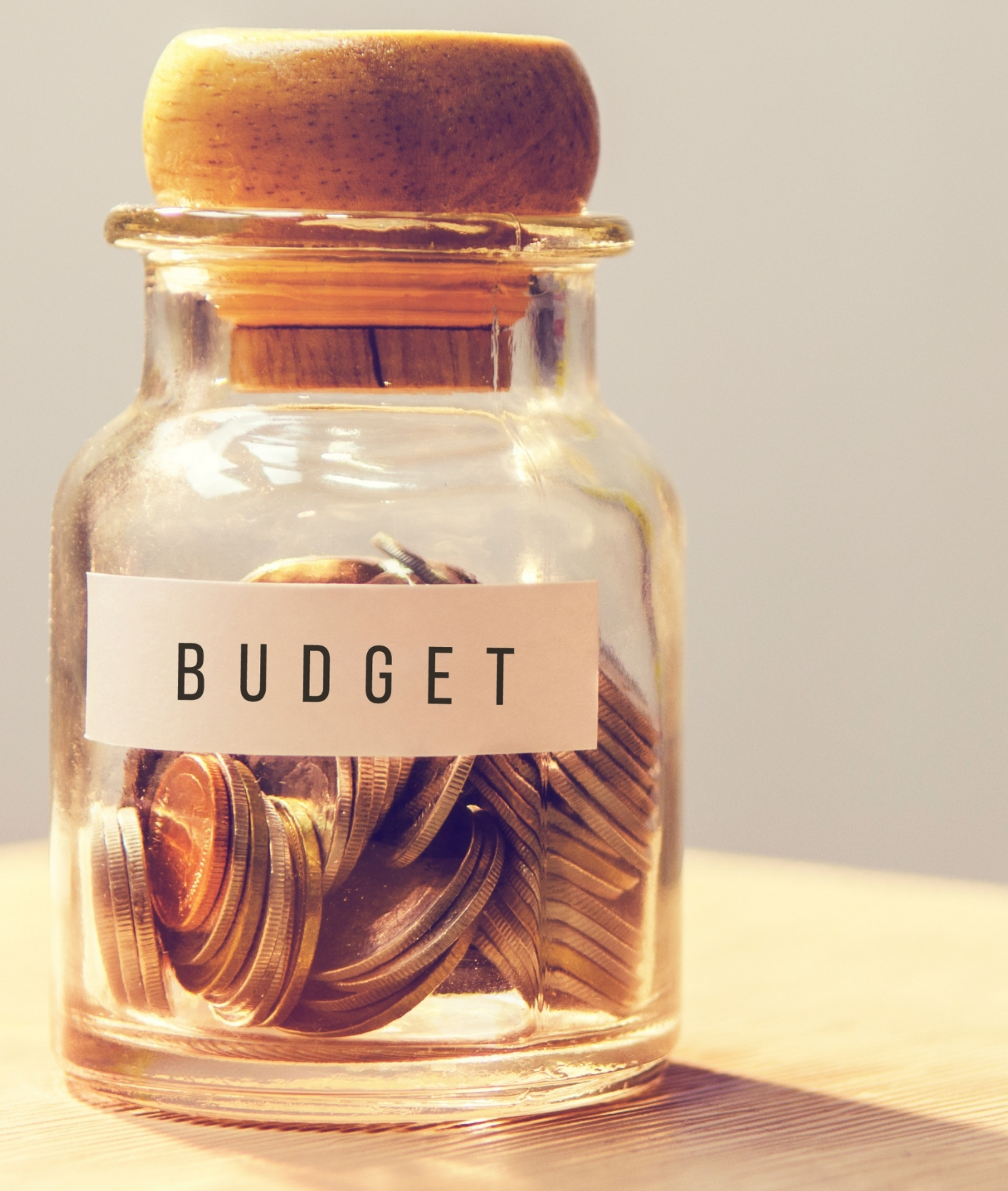
2020 Federal Budget White Paper

Our expert analysis



Contents

Introduction

With last year's Federal Budget reference to being "Back in Black" a long-forgotten memory, Treasurer Josh Frydenberg has laid out how the Federal Government plans to kick start the economy and drive growth in a post (or almost post) COVID era.

The approach adopted by the Federal Government is aligned to its pre-election Federal Budget which delivered tax cuts and focused on growth in the economy through infrastructure spending and incentives for small to medium businesses. This budget is no different with the Federal Government accelerating the previously promised tax cuts.

The tax cuts are designed to reward low to middle income earners with the flattening of tax brackets being aimed at approximately 90% of taxpayers. Based on economic analysis, the tax cuts should result in increased spending.

For companies, the loss carry back rules are a welcome reintroduction albeit for a short while. The instant asset write off for companies with an aggregated turnover of less than $5bn will continue until 30 June 2022 which will be good news for many.

Not surprisingly, there were no significant changes to the taxation of superannuation or Goods and Services Tax.

This budget is focussed on the creation of jobs in many sectors (not all) however the success depends on many factors including a Covid-19 vaccine and business and consumer confidence. Time will tell if predictions become reality.

Over the coming days the budget will be debated in Parliament and the media – if you want to understand the true story on how this budget will affect you personally please reach out to your ESV Engagement Partner. We are here to help and remain focussed on being your partner for growth.

Stay safe,

David Prichard
Partner

The Federal Government has announced a budget focussed on kick-starting the economy and driving growth.

Personal

Changes to personal income tax brackets

As widely publicised, the Federal Government has brought forward stage 2 of its previously legislated tax cuts. Stage 2 of the tax cuts provides $2,160 in tax savings to people earning $60,000 - $80,000 and $2,565 for people earning $140,000 or more. There is no change to the announced start date of stage 3 of the tax cuts which are slated to come into effect on 1 July 2024.

The personal income tax cuts will be backdated and take effect from 1 July 2020 and can be summarised as follows:

1

Stage 2 of the tax cuts have been brought forward.

2

Tax cuts will be backdated to 1 July 2020.

3

Designed to reward low to middle income earners.

Australian tax residents (excluding Medicare)

Rate (%)	Current Thresholds (from 1 July 2020) Income range ($)	Revised Thresholds from 1 July 2020 Income range ($)	Revised Thresholds from 1 July 2024 Income range ($)
Tax free	0 - 18,200	0 - 18,200	0 - 18,200
19	18,201 - 37,000	18,201 - 45,000	18,201 - 45,000
30	N/A	N/A	45,001 - 200,000
32.5	37,001 - 90,000	45,001 - 120,000	N/A
37	90,001 - 180,000	120,001 - 180,000	N/A
45	> 180,000	> 180,000	> 200,000

Non- residents

Rate (%)	Current Thresholds (from 1 July 2020) Income range ($)	Revised Thresholds from 1 July 2020 Income range ($)	Revised Thresholds from 1 July 2024 Income range ($)
Tax free	N/A	N/A	N/A
19	N/A	N/A	N/A
30	N/A	N/A	0 - 200,000
32.5	0 - 90,000	0 - 120,000	N/A
37	90,001 - 180,000	120,001 - 180,000	N/A
45	> 180,000	> 180,000	> 200,000

If, as expected the legislation to give effect to these income tax cuts passes through Federal Parliament swiftly, it should mean that the necessary adjustments are made to Pay-As-You-Go (PAYG) withholding tax tables in late October or early November giving many employees more in their take-home pay from that point forward. The backdating of the tax cuts to 1 July 2020 is likely to mean that some individuals will only receive the full benefit on lodgement of their tax 2020/21 income tax return.

Low Middle Income Tax Offset (“LMITO”) and Low Income Tax Offset (“LITO”)

The LMITO which historically was scheduled to wind down when the Stage 2 income tax cuts came online, has been retained for the 2020/21 year.

The maximum amount of LMITO is $1,080 phasing out to nil for individuals with income at $126,000.

As a result of bringing forward the income tax cuts, the new LITO (originally slated for 2022-23) has also been brought forward to 2020-21 and provides a maximum benefit of $700 before phasing out where an individual’s income is $66,668.

Pensioners & Welfare Recipients

Pensioners and welfare recipients will receive $500 from the Federal Government split across 2 payments of $250 in December 2020 and March 2021.

Removing Capital Gains Tax for Granny Flats

A targeted Capital Gains Tax (“CGT”) exemption will be introduced with effect from 1 July 2021 for granny flat arrangements where there is a formal written agreement in place.

The change 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. The guidance provided indicates that this will be a targeted exemption and will only be available to arrangements that provide accommodation for “older Australians or those with a disability”.

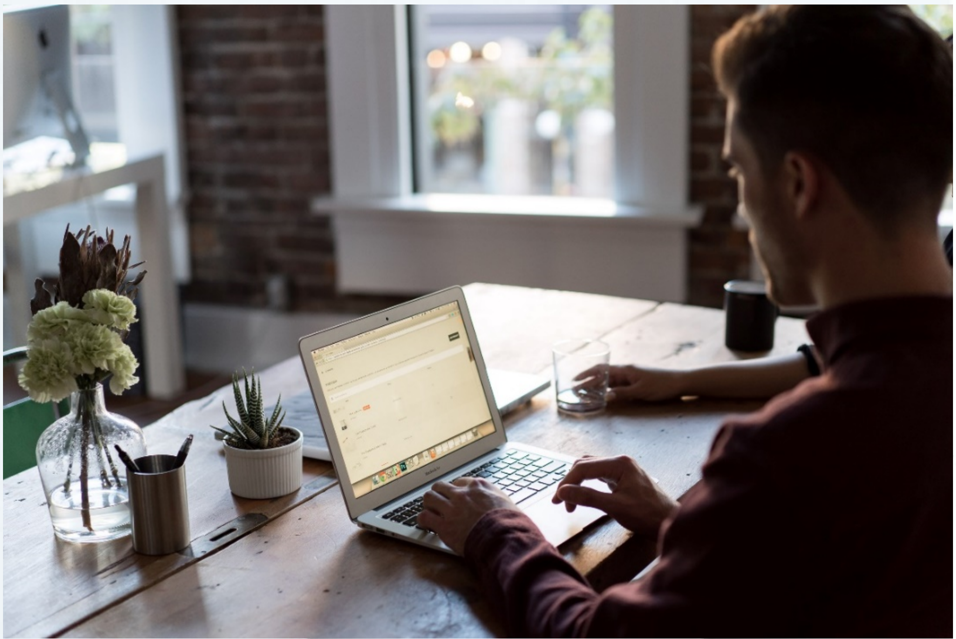
Superannuation

Moving forwards an individual's superannuation account will follow them from job to job avoiding the need for a new superannuation account on changing jobs. The linking of the superannuation account to a member is designed to reduce duplication of accounts for individuals which results in wastage and duplication of fees eroding superannuation savings.

Home Office Expenses

The temporary shortcut method for calculating home office expenses has now been extended to 31 December 2020 (Practical Compliance Guideline 2020/3) and may be extended further still.

Taxpayers have been able to apply the 80 cents per hour method since March 2020.



Business

1

Loss carry back has been re-introduced.

2

Instant Asset Write-Off extended.

3

The turnover threshold for small businesses will be increased from $10m to $50m.

4

Revised R & D rules.

Loss carry back

The Federal Government has re-introduced the loss carry back rules which had previously been enacted in the 2012/13 income year. The re-introduced loss carry back provisions will, however, only apply for a finite period.

The loss carry-back provisions essentially permit a company to apply current-year tax losses to recover tax paid in prior years (ie cash back). Unlike the prior incarnation, the loss carry back is not limited to a maximum carry back amount, with the limitations being made by reference to the amount of the earlier taxed profits and ensuring the refund cannot generate a franking deficit.

The loss carry back provisions are available for losses incurred in income years 2019/20 to 2021/22 and can be applied against tax profits from the 2018/19 income year onwards.

The loss carry back provisions will enable accelerated recoupment of tax losses as they can be applied against old profits rather than having to wait for future profits. The tax refund is designed to provide the company with the ability to reinvest for the future through the instant asset write off or utilise the cash to fund ongoing operations. The loss carry back provisions may be utilised after accessing other budget stimulus packages such as the instant asset write off as the Federal Government seek to build confidence and drive growth.

Instant Asset Write Off

The Federal Government has continued its approach to encourage business to invest in fixed assets by extending its current program. With effect from budget night, all companies with less than $5bn in aggregated turnover will be able to fully write off the value of its eligible capital assets in the period to 30 June 2022.

	Aggregated annual turnover less than $5 billion	**Aggregated annual turnover less than $50 million**
Tax Deduction	Full cost of eligible capital assets in the year of first use for: › new depreciable assets; and › the cost of improvements to existing eligible assets.	Full cost of eligible capital assets in the year of first use for: › new or second-hand depreciable assets; and › the cost of improvements to existing eligible assets.
Acquired from	7:30pm AEDT on 6 October 2020	7:30pm AEDT on 6 October 2020
First used or installed by	30 June 2022	30 June 2022

Small Business entity turnover and associated measures

The turnover threshold for small businesses will be increased from $10m to $50m enabling business to access up to ten tax concessions. The concessions will be available to eligible businesses in three stages as follows:

- From 1 July 2020 - immediately deduct certain start-up expenses and certain prepaid expenditure;
- From 1 April 2021 - will be exempt from FBT on car parking and multiple work-related portable electronic devices provided to employees;
- From 1 July 2021 -
  - will be able to:
    - access the simplified trading stock rules,
    - remit PAYG instalments based on GDP adjusted notional tax;
    - settle excise duty / excise-equivalent customs duty monthly;
  - tax return amendment periods will be reduced from 4 to 2 years for income years starting from 1 July 2021; and
  - increased Commissioner's power to create a simplified accounting method determination for GST purposes.

R&D

The Federal Government has scaled-back its proposed changes to the R&D Tax Incentive which was stuck in the Senate, The revised rules, which apply from 1 July 2021 mean that most companies will, on the whole, be no worse off under the rules as follows:

	Aggregated annual turnover less than $20 million	**Aggregated annual turnover more than $20 million**
R&D Incentive Rate	› 18.5% above the claimant's company tax rate with no cap on annual cash refunds	› 8.5% for R&D expenditure between 0 and 2 per cent R&D intensity; and › 16.5% for R&D expenditure above 2 per cent R&D intensity.

Clarifying corporate tax residency rules

The Federal Government is seeking to reverse the impact of recent court cases by clarifying the corporate residency test. The proposed amendments effectively reinstates the historical corporate tax residency position (ie prior to the 2016 court decision in Bywater and will overturn Taxation Ruling 2018/5).

The changes mean that foreign incorporated companies will be treated as an Australian tax resident if they have a 'significant economic connection to Australia'. The above 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 enabling legislation, but taxpayers will have the option of applying the new law from an earlier date.

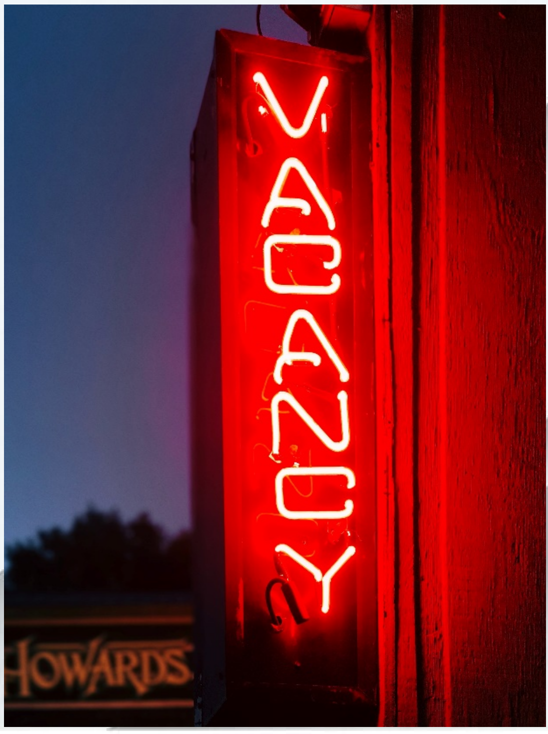
JobMaker Hiring Credit

As the JobKeeper subsidy winds down, the Federal Government are seeking to drive jobs growth by the introduction of the JobMaker Hiring credit which subsidises the wages of young employees from the day after the budget. Whilst one type of subsidy is being replaced with another, the Federal Government is seeking to be more targeted in the new round of cash incentives.

To be eligible newly hired employees will need to have been on JobSeeker, Youth Allowance or the Parenting Payment for at least one of the past three months and work at least 20 hours a week on average (aligned to JobKeeper).

Employers will need to demonstrate that the new employee will increase head count and payroll by reference to the headcount at 30 September 2020 and payroll for the quarter to 30 September 2020 (again aligned to relevant JobKeeper dates). The JobMaker Hiring credit subsidy can be summarised as follows:

	Age of worker 16-29	**Age of worker – 30-35**
Rate of Subsidy	$200 per week	$100 per week
Employed	7 October 2020 - 6 October 2021	7 October 2020 - 6 October 2021
Maximum received	$10,400	$5,200



Other announcements

Wage Subsidy

Businesses that hire a new Australian apprentice or trainee will qualify for a 50% wage subsidy up to a cap of 100,000 new apprentices.

Employers of all sizes and industries will be eligible for a 50% subsidy to a cap of $7,000 per quarter until 30 September 2021.

Superannuation

There have been no changes to the underlying rules concerning the taxation of superannuation, nor have there been changes announced in respect of the impending superannuation guarantee changes that are scheduled for 2020/21, however, there are some changes coming.

The changes specifically focus on a loss of superannuation savings for the public through nonperforming superannuation schemes or duplication of accounts. As such:

- Nonperforming funds will be required to notify members of underperformance where this occurs in two consecutive years;
- A newly created "Your super" online comparison tool will be made available to consumers;
- Existing superannuation accounts will be linked to a member so new accounts are not required to be set up when changing jobs.

First Home Loan Deposit Scheme

An additional 10,000 places has been made available for first home buyers under the existing First Home Loan Deposit Scheme. Eligible first home buyers can obtain a loan to build a new home or purchase a newly built home with a deposit of 5% with the Federal Government providing a guarantee for the difference between the deposit and 20% of the purchase price.

ESV Services

At ESV, we know how important your business is to you. We'll work closely with you on the parts of your company that matter most, taking a client-focused, hands-on approach to all of your business and accounting needs.

Coming from a range of business and financial backgrounds globally, our Partners have extensive experience working alongside businesses of all shapes and sizes. These include some of the world's largest organisations and multinationals to fast-paced start-ups and successful family businesses.

This breadth of experience – coupled with their specialist knowledge in a wide range of accounting and business services – allows our partners to take a proactive approach to all your needs, no matter how challenging.

Our services include:

- Audit & Assurance
  - Process and systems improvement
  - Fraud and risk management
  - Due diligence
- Business Advisory
  - M&A assistance
  - Budgeting and cash flow forecasting
  - Investment / property modelling
  - Family Office management
  - Governance, Risk and Compliance Management solutions
  - Outsourced CFO / CFO support
  - Succession and estate planning
- Taxation
  - Tax structuring
  - Transactional advice
  - Tax mitigation and risk reviews
  - Strategic tax planning
- Forensic Accounting & Business Valuations
- Process improvement
- Fraud & Risk management
- Director Services
- Not for profit
- Doing business in Australia

Expert Analysis

"Understanding tax consequences can have a significant impact on your business and cash flow."

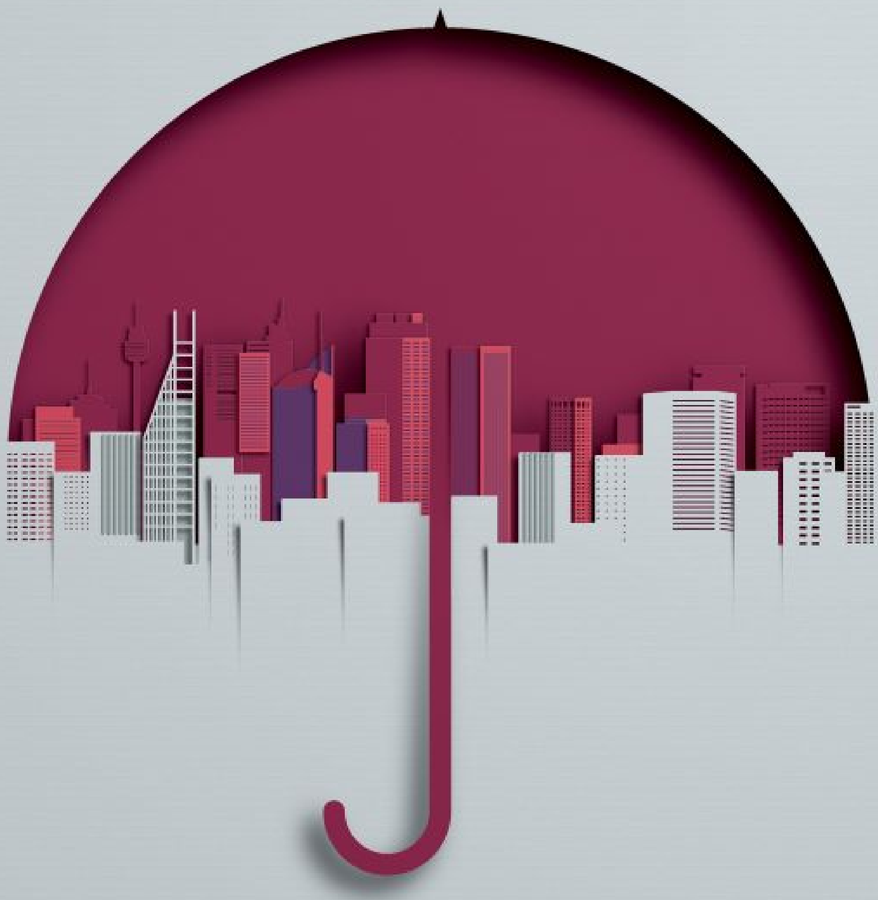
David Prichard
Partner

David leads ESV's Tax Consulting practice which is a market leader in providing taxation services to large and mid-sized businesses, family groups and high net wealth individuals. He has over 25 years' experience in the provision of taxation services including time at the 'Big 4' accounting firms in the UK and Australia and an 'in-house' stint at one of Australia's largest FMCG companies.

His specialist services includes; Tax Consolidations, Trusts, Structuring and Restructuring, International Tax including Thin Capitalisation, Due diligence for Mergers and Acquisitions and IPO, Tax Governance and Risk Management, Taxation of Financial Arrangements, Tax Controversy, Capital Gains Tax and Tax Training.

David has extensive experience working with clients in a wide variety of industries including manufacturing and distribution, FMCG, IT and technology, professional services, energy, resources and property. He also works closely with the ESV Forensic team, providing expert reports in support of various matters.

By taking the time to build a close working relationship, David develops a deep understanding of clients' objectives and issues before delivering practical and timely advice based on his commercial experience. David is a Chartered Tax Adviser, Fellow of The Chartered Institute of Taxation (UK), and is an Affiliate member of Chartered Accountants Australia.



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