

BUDGET

2021 Federal Budget White Paper

Our Expert Analysis



2021 Federal Budget White Paper

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Introduction

Treasurer Josh Frydenberg has handed down his second Covid Budget continuing the position adopted in his original Budget. The Coalition Government has continued to spend money at the expense of the Budget deficit, on the basis that continued spending is required to ensure that the economic recovery is maintained.

The anticipated deficit has not materialised largely due to iron ore prices and an increased take from income taxes due to higher than anticipated employment levels. This has provided the Government with the opportunity to adopt a largely politically focused budget (some may say even a Labor-style budget) to address perceived areas of political weakness with significant expenditure on Aged Care, Health and a variety of measures purportedly aimed at women. This Budget could be the last prior to the next Federal election but more realistically will be the penultimate Budget before the general election and should be viewed as such.

From a taxation perspective, there were no wholesale changes, rather specific targeted changes have been made which predominantly relate to extending the recently announced Covid incentive measures or previously identified technical problems. The main taxation items addressed were as follows:

- > Extension of the temporary full expensing measures;
- > Extension of the loss carry back measures;
- > Extension of the LMITO (low and middle-income tax offset) measure for a further 12 months; and
- > Simplification of the Employee Share Scheme rules.

There is no doubt our economy is doing much better than any expert had predicted, however, Covid has not gone away and the impact will continue to cause ripples throughout our economy for some time to come.

As always the Budget will be debated in Parliament, on social media and in feisty TV interviews – if you want to understand the true story on how this Budget will affect your business or you personally please reach out to your ESV Engagement Partner. We are here to help and remain focussed on being your partner for growth.

Money continues to be spent to ensure our economic recovery.

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Personal Tax

Low and middle income tax offset (LMITO)

The Government have provided ongoing targeted tax relief to low and middle-income earners by retaining the LMITO for a further 12 months with the anticipated benefit being an ongoing boost to consumption helping to secure economic recovery.

This tax offset will reduce tax payable by up to \$1,080 for individuals or \$2,160 for dual income couples. For an individual, the full offset of \$1,080 is available where taxable income is between \$48,000 and \$90,000. The offset starts to phase out thereafter until it reduces to nil at a taxable income of \$126,000.

The LMITO will be received on assessment after individuals lodge their tax returns for the 2021-22 income year.

1

LMITO has been extended for another 12 months.

2

If a person is physically in Australia for 183 days, they will be deemed an 'Australian tax resident'.

3

Changes to Employee Share Schemes announced.



Tax Residency

Following recent consultation, the Government have announced that they will replace the existing tests for the tax residency of individuals with a primary "bright line" test under which a person who is physically present in Australia for 183 days or more in any income year will be an Australian tax resident.

Where an individual does not meet the primary test, they will be subject to secondary tests that depend on a combination of physical presence and measurable, objective criteria. These new residency rules are based on recommendations made by the Board of Taxation and are to have effect following Royal Assent of the legislation.

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Employee Share Scheme Changes

Employee Share Schemes can provide significant incentives to attract and retain staff for many businesses and if appropriately structured, can provide for tax on a tax deferred basis.

Under the current legislation, one of the taxing points for tax-deferred schemes is cessation of employment. This can create problems when the vesting conditions haven't been met or where there is no ready market for the shares. The proposed change removes cessation of employment as a deferred taxing point, although it is likely to create an increased administrative burden for employers as they will be required to track former employees.

The change is scheduled to apply for interests issued in the first income year after the amendments receive Royal Assent and therefore the existing challenges will continue to be faced by employees.

Childcare Subsidy

In a measure that is included within the Women's Economic Security measures, changes have been flagged for the childcare subsidy to make childcare more affordable and boost workforce participation.

Under the proposed changes commencing on 1 July 2022:

- > The subsidy rate will increase by 30 percentage points for the second child and subsequent children aged five years and under in care, up to a maximum rate of 95%; and
- > The annual cap of \$10,560 per child per year will be removed.



The Government is focussed on getting more women back into the workforce.

Self-education expenses

Currently the first \$250 of self-education expenditure is not deductible. This limitation will be removed from effect from the first year after the legislation receives Royal Assent.

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Personal Tax rates

There are no changes that will affect you in the next financial year, however, the Federal Government remains committed to the Stage 3 tax cuts for individuals. From 2024-25 taxable income between \$45,001 and \$200,000 will be taxed at 30% and if you earn in excess of \$200,000 you will be taxed at 45%.

The personal income tax rates can be summarised as follows:

Australian tax residents (excluding Medicare)

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

Non- residents

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



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Superannuation

The Plan

The Government's continued tweaking and changing of the superannuation rules are pitched at providing simplicity and an increased ability to contribute into superannuation, however, a more consistent longer-term view would be appreciated by all.

Downsizer contributions

Consistent with the Government's existing policy of driving home ownership and increasing the stock of available housing, the downsizer contributions enable older homeowners to contribute additional funds to superannuation.

An individual can contribute up to \$300,000 into superannuation which does not count towards non-concessional contribution caps.

Currently, taxpayers need to be 65 years old to be eligible to make downsizer contributions, however, this will be reduced to 60. The change is expected to be effective from the start of the first financial year after Royal Assent, likely to be 2022-23.

Removing the work test

Currently individuals aged 67 to 74 years old can only make voluntary contributions (concessional or non-concessional) if they are working at least 40 hours over a 30-day period in the relevant financial year.

The changes proposed by the Government will remove this requirement such that these individuals can make non-concessional or salary sacrifice superannuation contributions without meeting this work test.

This measure is to have effect for the 2022-23 financial year onwards.

Super threshold

The \$450 per month threshold for superannuation eligibility is to be removed as part of the Government's measures targeted at women (although it is noted that both men and women benefit under this measure).

For employers with part time staff, especially those in the hospitality and entertainment industries, this measure will mean a review of existing remuneration packages. These changes need to be viewed together with the pre-existing changes to the superannuation guarantee percentages previously slated to take effect in July 2021.



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Business Tax

Support & incentives

The Government continues to provide the business community with support and incentives to invest in driving growth and ongoing recovery within the economy. To this end the Government have announced a number of extensions to existing support measures.

Extension of temporary full expensing

The temporary full expensing measures introduced in the 2020-21 Budget has been extended by a further 12 months.

The measure as originally enacted required assets to be first used or installed ready for use by 30 June 2022. This has now been extended such that eligible assets acquired and installed ready for use between 6 October 2020 and to 30 June 2023 can be expensed for tax purposes.

All other elements of the existing temporary full expensing measures will remain unchanged.

1
Instant Asset Write-Off extended.

2
Changes to the effective life of intangibles.

3
Extension of the loss carry-back.

4
Revised tax residency rules.

| | Aggregated annual turnover less than \$5 B | Aggregated annual turnover less than \$50 M |
|----------------------------|--|---|
| | Full cost of eligible capital assets in the year of first use for: | Full cost of eligible capital assets in the year of first use for: |
| Tax Deduction | <ul style="list-style-type: none"> > new depreciable assets; & > the cost of improvements to existing eligible assets. | <ul style="list-style-type: none"> > new or second-hand depreciable assets; & > 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 2023 | 30 June 2023 |

Effective life for intangibles

The income tax law will be amended to allow taxpayers to self-assess the effective life of certain intangible assets – think in-house software and IP. At present companies need to use the effective life currently prescribed by the statute. Taxpayers will be able to bring deductions forward if they self-assess the assets as having a shorter effective life.

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Extension of temporary loss carry-back

The Government has also announced that it will be extending the 2020-21 Budget's loss carry-back measures by another year. The loss carry-back is a Covid measure focused on companies and is not available to individuals, trusts or partnerships.

The proposed change extends the eligibility period by a year such that tax losses made in the 2022-23 income year will now be available to be carried back against previously taxed profits from the 2018-19 to 2021-22 income years. The offset will generate a refundable tax offset in the income year in which the loss is made.

The refundable tax offset is limited by the earlier taxed profits and the franking account of the entity.

Tax residency rules

In the 2020-21 Budget, the Government announced that amendments would be made to the rules concerning the Australian tax residency of companies that are incorporated offshore. In the changes proposed in the prior Budget a foreign incorporated entity will be treated as an Australian tax resident if it has a 'significant economic connection to Australia'. This test would be satisfied where both:

- > The company's core commercial activities are undertaken in Australia; and
- > Its central management and control is in Australia.

As part of the current Budget, the Government has announced that it will be extending its consultation in this area to trusts and corporate limited partnerships. Refinement of these rules is welcome given the accidental residency issues arising with trusts.

The loss carry-back scheme has been extended as the Government recognises this helps drive businesses to invest now.



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Digital Games Tax Offset

The Government is focussed on investing in digital technologies. They have announced a 30% Digital Games Tax Offset commencing on 1 July 2022 for eligible businesses that spend \$500,000+ on qualifying Australian games. Games will not be allowed to have a gambling element and will need to have a classification.

Patent Box

As part of the Government's drive to increase Australia's research and development industries, it has announced a "Patent Box" concession for income years starting on or after 1 July 2022.

Essentially a Patent Box is a mechanism under which a concessional rate of tax (17% in this case) is applicable for income derived from Australian-developed medical and biotechnology patents. This concept has been flagged for extension to patents developed in the clean energy sector.

Corporate collective investment vehicle (CCIV)

The Government has committed to finalising the CCIV regime which had been previously announced as part of the 2016-17 Budget with a commencement date scheduled for 1 July 2022.

The CCIV regime is targeted providing a corporate fund vehicle structure rather than those already available through the use of Australian management investment trusts (MITs) and attribution managed investment trusts (AMITs).

Corporate Tax Rate

Whilst not part of the current Budget, it should be remembered that the corporate rate of tax is scheduled to fall to 25% for base rate entities from 1 July 2021.

A base rate entity is a company that both:

- > Has an aggregated turnover less than the aggregated turnover threshold –\$50 million from the 2018–19 income year; and
- > 80% or less of their assessable income is base rate entity passive income.

It should be remembered that the reduction in corporate tax rates will have an impact on franking rates.



Corporate tax rate will fall to 25% for base rate entities from 1 July 2021.

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ESV Services

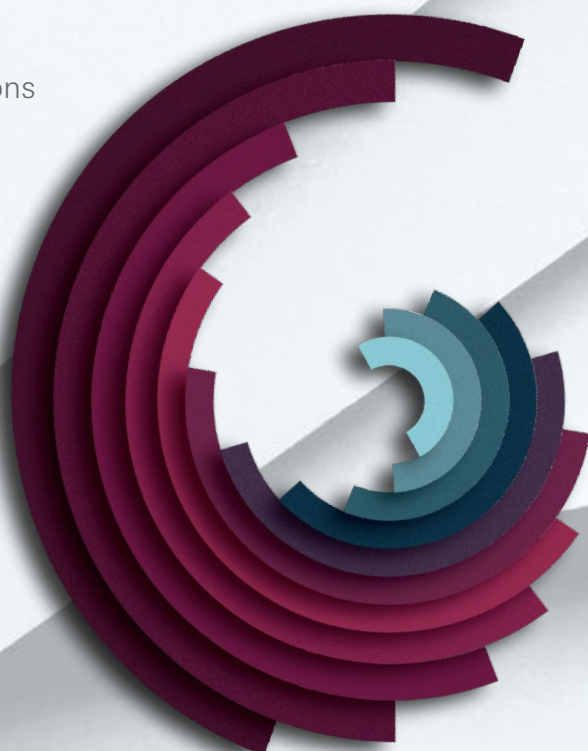
At ESV, we know how important your business is to you. We'll work closely with you on the parts of your company that matter most, taking a client-focused, hands-on approach to all of your business and accounting needs.

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.

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Your Budget Expert



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

David Prichard

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David leads ESV's Tax Consulting practice and 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; Corporate and Family Groups, Private Client Services, 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 also acts for a number of clients in the role of 'Outsourced Tax Director' to provide specialist tax advice when a team needs it most.

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.



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