2020 Federal Budget

After being postponed from its usual home in May, the Federal Budget was (finally) announced on 6th October. While Covid19 has had a clear impact on the economy global economy, the message from this year's budget came with a clear message – increase spending to reignite the economy.

Below are some key announcements

Businesses

Supporting business and investment

Instant Asset Write Off

From 7:30pm (AEDT) on 6 October 2020 until 30 June 2022, businesses with turnover up to $5 billion will be able to deduct the full cost of eligible depreciable assets of any value in the year they are installed. The cost of improvements to existing eligible depreciable assets made during this period can also be fully deducted.

The previous limit of $150,000 was set to revert back to $1,000 in December 2020, and while we expected a higher amount to be announced in the Budget, having an uncapped limit on equipment purchases was a surprise, particularly with the turnover threshold increasing to $5b which will cover 99% of businesses.

Managing cash flow will be more important than ever, and businesses will need to weigh up both the cash and tax impact for major purchases. Please contact us to discuss ways we can help you create and manage your cash flow forecast!

Note: the luxury car limit of $59,136 still applies.

Temporary loss carry-back to support cash flow

Loss carry-back will be available to around 1 million companies that employ up to 8.8 million workers. Losses incurred up to 2021-22 can be carried back against profits made in or after 2018-19. Eligible companies may elect to receive a tax refund when they lodge their 2020-21 and 2021-22 tax returns.

In other words, if you make a profit (and pay tax) in the 2019 year or later, you will be able to claim a credit for the tax previously paid in the 2021 & 2022 tax return, and can be used in conjunction with the Instant Asset Write Off above.

The carry-back will only be available to Corporate Tax Entities (eg: Pty Ltd Companies).

R&D tax concessions injection and simplification

From 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:

- 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
- 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.

JobMaker 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.

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.

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.

The 'Job' family of announcements is getting quite large now with JobKeeper, JobSeeker, JobTrainer and the broader JobMaker Plan. While it is expected that the *JobMaker Hiring Credit* will lay claim the *JobMaker* name in general media, there will no doubt be confusion for these – particularly with some employees needing to be under *JobSeeker* to be eligible for the *JobMaker Hiring Credit*

Boosting Apprenticeships Wage Subsidy

From 5 October 2020 to 30 September 2021, businesses of any size can claim the new Boosting Apprentices Wage Subsidy for *new apprentices or trainees who commence during this period*. Eligible businesses will be reimbursed up to 50 per cent of an apprentice or trainee’s wages worth up to $7,000 per quarter, ***capped at 100,000 places***. The wage subsidy will support school leavers and workers displaced by the COVID-19 related downturn to secure sustainable employment.

Individuals

Lower taxes for Individuals

The ‘Stage 2’ tax reforms have been brought forward from 1 July 2022, to 1 July 2020

- The threshold for the 19c Tax Bracket has increased from $37,000 to $45,000
- The threshold for the 32.5c Tax Bracket has increased from $90,000 to $120,000
- Low Income Tax Offset (LITO) will increase from $445 to $700
- The Low and Middile Income Tax Offset (LMITO) of $1,080 will continue for the 2021 year

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

Tax Rate	Current	From 1 July 2020	From 1 July 2024
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

To see how the tax cuts will impact you, check out the Tax Relief Estimator

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10,000 additional places in First Home Loan Deposit Scheme

Announced pre Budget, from 6 October 2020 until 30 June 2021, an additional 10,000 places will be available for first home buyers under the First Home Loan Deposit Scheme to support the purchase of a new home or a newly built home. The scheme enables first home buyers to purchase a home with a deposit of as little as 5% without mortgage insurance. There are currently 27 participating lenders across Australia offering places under the First Home Loan Deposit Scheme.

Capital gains tax removed from 'granny flats'

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.

The changes will come into effect from 1 July 2021, provided the legislation is passed

Removing Capital Gains Tax for Granny Flats

Paid Parental Leave

The Paid Parental Leave works test will be relaxed for births and adoptions that occur between 22 March 2020 and 31 March 2021 to allow parents to qualify for the payment if they have worked in 10 of the last 20 months, instead of 10 of the last 13 months, preceding the birth or adoption of a child

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Superannuation Reform

In a good move for both employers and employees, the ATO will develop systems so that new employees will be able to select a superannuation product from a table of MySuper products through the YourSuper portal. This will help cut down duplicate super funds when changing jobs. 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

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We will provide updates as more news/ information comes to light. As always, it's important to note that the budget announcements aren't real until the legislation has been finalised.

If you have any questions about how the Budget has affected you or your business, please contact our office on 08 6118 6111 or email hello@prescottsolutions.com.au

More Information

- Budget 2020-21 – Budget.gov.au
- Budget Measures Budget Paper No. 2 2020–21 https://budget.gov.au/2020-21/content/bp2/download/bp2_complete.pdf
- Tax relief estimator https://budget.gov.au/calculator/index.htm
- ATO: Latest news on tax law and policy https://www.ato.gov.au/General/New-Legislation/Latest-news-on-tax-law-and-policy/

Whilst every care has been taken in its preparation no person should act specifically on the basis of the material contained herein. If assistance is required, professional advice should be obtained.

The material contained in the 2020-21 Budget Update should be used as a guide in conjunction with professional expertise and judgement. All responsibility for applications of the 2020-21 Budget Update and for the direct or indirect consequences of *decisions based on the 2020-21 Budget Update rests with the user.*