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Holmans Federal Budget Summary (information current as of October 08, 2020)

The Federal Budget released on Tuesday night (6 October) was all about encouraging business and personal spending to support employment, particularly as the JobKeeper measures start to unwind. Together with increased Government spending in key areas, they hope it can minimise job losses and promote an economic recovery.

A big part of that will come down to how taxpayers respond to the tax breaks and whether they are confident enough to invest in the future.

Importantly, if you have any queries about the Federal Budget or concerns during these uncertain times, please don't wait on the accountant to contact you, if you're not sure or want to know more – contact your accountant now. It is times like this that you need your professional advisors the most – don't hesitate to contact them.

Over the last 36 hours, Holmans have poured over the Federal Budget summaries and papers, so you don't have to. So here is our summary of the key announcements (remembering, it is not formally legislated yet):

KEY TAX MEASURES

Income Tax Breaks for all…. with Stage 2 tax breaks proposed to be forward to this current (2019-20) financial year (retrospective application).

Individuals - Proposed rates and thresholds

Rate[1]	2018-19 to 2019-20	2020-21 to 2023-24	2024-25 onwards
NIL	$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	Removed
37%	$90,001 - $180,000	$120,001 - $180,000	Removed
45%	$180,001 and over	$180,001 and over	$200,001 and over
Low and middle income tax offset	Up to $1,080	Up to $1,080*	-
Low income tax offset	Up to $445	Up to $700	Up to $700

*1. Note that these rates exclude the Medicare Levy * The LMITO has only been extended for 2020-21*

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There has also been changes to the Low and Middle Income Tax Offset (LMITO) which are targeted at assisting those on lower taxable incomes.

The Government has been selling the following table which shows the combined impact of the Tax Breaks and Low and Middle Income Tax Offset changes provided over the last 2 years by taxable income – note, it does combine some of the benefits provided last year.

The following table sets out the anticipated tax relief:

Taxable Income	2017-18	2020-21		
	Tax Liability	Tax Liability (proposed)	Change in tax	Change in tax
$40,000	$4,947	$3,887	-$1,060	-21.4%
$60,000	$12,147	$9.987	-$2,160	-17.8%
$80,000	$19,147	$16,987	-$2,160	-11.3%
$100,000	$26,632	$24,187	-$2,445	-9.2%
$120,000	$34,432	$31,687	-$2,745	-8.0%
$140,000	$42,232	$39,667	-$2,565	-6.1%
$160,000	$50,032	$47,467	-$2,565	-5.1%
$180,000	$57,832	$55,267	-$2,565	-4.4%
$200,000	$67,232	$64,667	-$2,565	-3.8%

Source: Budget Paper No. 2 page 18;
Fact sheet: Lower Taxes: Supporting households, driving investment and creating jobs; and
Online tax relief estimator

The tax relief calculations take into account only the basic tax scales, the LITO, the LMITO and the Medicare levy (with 2017–18 Medicare levy single low-income threshold).

Holmans Comment:

- The tax breaks will flow through to pay packets once legislated and the ATO PAYG Withholding Tables are updated. Note however, that the LITO and LMITO (tax offsets) are only applied at year end on lodgment of the tax return.

Instant Asset Write Off…. $150,000 threshold has been extended and expanded, but it still does not apply to buildings or high value cars.

The Government has announced that it will amend the tax law so that businesses with aggregated annual turnover of less than $5 billion will be able to deduct the full cost of eligible capital assets in the year they are first used.

The $150,000 instant write off rules already existed. Essentially the Government have just extended the eligible period of investment from 31 December 2020 to 30 June 2022 and allowed a larger range of businesses (larger businesses) to access the concessions. For most businesses, there is no real change here.

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Eligible businesses are entitled to expense in the year of first use for:

- new depreciating assets;
- the cost of improvements to existing eligible assets;
- for small and medium businesses (aggregated turnover of less than $50 million) - second-hand assets.

It applies to any eligible capital assets acquired from 7.30pm AEDT on 6 October 2020 and first used or installed by 30 June 2022.

Importantly, any existing assets that are already pooled and have a closing balance under $150,000 will also be entitled to be written off.

Holmans Comment:

- The Government is banking on bigger businesses investing in the future.
- This measure only applies to capital assets…. Think computers, tables, cars (up to statutory limits). It does not apply to Buildings/Land/permanent fixtures to buildings like renovations or wiring. There is also a limit on values of motor vehicles ($59,136 for 2020-21), and you should check with your accountant before making any significant purchases.
- This is a per asset test (always has been)…. Not cumulative.
- Some problems can arise if you later sell an asset, as the full proceeds are taxable at that point. There can also be some Division 7A implications in companies and private use (FBT) implications where there is part private use.
- Importantly, there is a misconception that this deduction "funds" the asset purchase. This is incorrect. For example, where you are in a company and spend $100,000 on eligible assets, you might save $26,000 in tax. Meaning the business still had to fund $74,000 in cash or loan repayments. The tax benefit only funds a small proportion of the asset purchase. Cashflow is king.
- Deductions for asset purchases have always existed, these measures just bring the deduction forward (rather than over 5 plus years for example). So there is no "extra deduction", it is just the timing that has changed. Accordingly, Holmans think there is a little too much hype around this instant asset write off.

Company Tax Losses Carry Back (Temporary Measure)

The Government has announced that the tax law will be amended to allow corporate tax entities with an aggregated turnover of less than $5 billion to elect to carry-back tax losses from the 2019–20, 2020–21, or 2021–22 income years to offset previously taxed profits in 2018–19 or later income years.

Previously losses could only be carried forward to offset against future profits.

This will now enable businesses in a loss position to get back previously paid tax to help sustain the business during these difficult times.

Holmans Comment:

- It is voluntary. The effect of the election made on lodging the tax return will be to generate a tax refund for previously paid tax, which will first be available when lodging the 2020–21 tax return.

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Holmans Comment Continued...

- There are conditions, including that the amount carried back is not more than the earlier taxed profits and does not generating a franking account deficit.
- This is a sensible measure that will benefit those businesses which were significantly affected by COVID or Bushfires in recent times. The problem is that these businesses need cashflow now!

Victoria Business Support measures – Tax Free

The Government has announced that it will amend the Tax laws to make the Victorian Government's business support grants for small and medium businesses, as announced on 13 September 2020, non-assessable, non-exempt (NANE)… which is essentially the best type of tax status.

The Government will extend this arrangement to similar grants by all States and Territories on an application basis.

Holmans Comment: Let's hope all State grants follow suit.

Superannuation…. Not much changed, which is probably a good thing.

The Government resisted making changes to superannuation, other than measures designed to reduce red tape and allow employees to have superannuation funds follow them more easily.

Holmans Comment: This is fantastic news, stability in the rules is important.

OTHER KEY MEASURES

JobMaker Hiring Credit

The Government announced a new JobMaker hiring credit to encourage businesses to hire younger Australians. The JobMaker hiring credit will be payable for up to 12 months and immediately available to employers who hire those on JobSeeker aged 16-35. It will be paid at the rate of $200 per week for those aged under 30, and $100 per week for those aged between 30-35. New hires must work for at least 20 hours a week. Eligible employers will also need to demonstrate that the new employee will increase overall employee headcount and payroll.

All businesses, other than the major banks, will be eligible.

Holmans Comment:

- Government Marketing team love their names/slogans but forget how confusing that might be… JobSeeker, JobKeeper, JobMaker.
- Eligible employees must have been on JobSeeker Payment, Youth Allowance or Parenting Payment for at least 1 month out of the last 3 months before they were hired. So may not apply to your own kids!
- Must be reporting wages via Single Touch Payroll (STP)… if you haven't got the hint, this is how Government want all wages reported and they are making eligibility to concessions and support dependent on it. You should be organising to report via STP as soon as possible.

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Apprenticeship Support

The Government has announced the introduction of a new Boosting Apprenticeship Commencements wage subsidy.

From 5 October 2020 to 30 September 2021, businesses of any size can claim the wage subsidy for any new, or recommencing, apprentices or trainees. Eligible businesses will be reimbursed for 50 per cent of an apprentice or trainee's wages, up to $7,000 per quarter, capped to 100,000 places.

Clarifying Corporate Residency

The Government announced that it will make a technical amendment to clarify the corporate tax residency test.

The law will be amended 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', which will be satisfied where both the company's core commercial activities are undertaken in Australia and its central management and control is in Australia. This essentially returns the rules back to the way they were. While the devil is always in the detail, it is hoped this will remove the uncertainty that was created when the ATO announced their new interpretation of the rules approximately 3 years ago.

Holmans Comment:

Proposed to apply to the first income year after the date of Royal Assent of the enabling legislation, with an option to apply the new law from 15 March 2017 (being the date of withdrawal of TR 2004/15).

Economic Support Payments

The Government proposes to provide two $250 economic support payments to be made from early December 2020 and early March 2021. This will be available to eligible recipients of the following payments and concession cards:

- Age Pension
- Disability Support Pension
- Carer Payment
- Carer Allowance
- Pensioner Concession Card (PCC)
- Eligible DVA payments
- DVA Gold card
- DVA Seniors card
- Family Tax Benefit, including Double Orphan Pension
  (Only for those not already receiving a primary income support payment)

Of course, there were lots more announcements and measures in the Federal Budget than covered here, but we feel the above are the most applicable and relevant to our clients. Further detail will be released over the coming weeks as the measures are legislated. Keep an eye out for the same.