FEDERAL BUDGET SUMMARY 2020-2021

MAZARS

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FEDERAL BUDGET OVERVIEW

The 2020-2021 Australian Federal Government budget brings enormous stimulus to promote recovery of an economy devastated by natural disasters and the global COVID-19 pandemic.

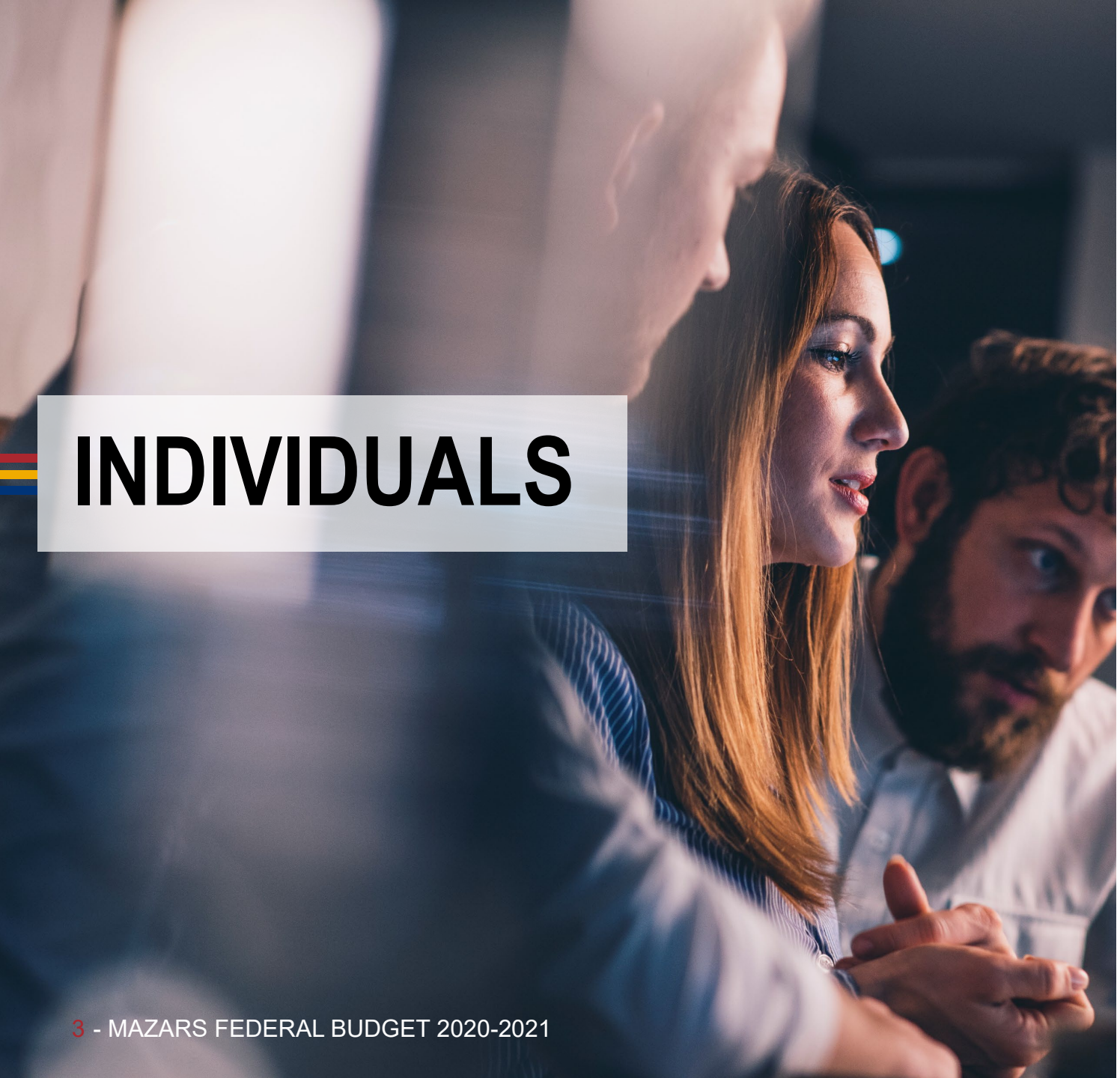
The Government is forecasting a record deficit of $213.7 Billion (11% of GDP) and gross debt to be 44.8% of GDP for the 2020-21 budget period. Further smaller deficits will arise over the forward estimate period, but these are predicated on a COVID-19 vaccine being developed and deployed towards the end of 2021. The Government is committed to initially stimulating and stabilising the economy and then reducing debt as a share of GDP.

The stimulus includes further investment in infrastructure, education and upskilling the workforce, encouraging hiring of younger people through a JobMaker Hiring Credit, supporting investment in manufacturing and R & D and encouraging businesses to spend through significant tax incentives.

This Budget Summary summarises the key tax, superannuation and stimulus announcements that we expect will most affect Mazars individual and business clients. The dates in square brackets indicate the proposed start date for the announced change.

Please note that as these are just announcements they cannot be regarded as law until legislated.

INDIVIDUALS



INCOME TAX RATE CUTS BROUGHT FORWARD

CHANGES TO LOW INCOME TAX OFFSET

CGT EXEMPTION

For "Granny Flat Arrangements"

INDIVIDUALS

PERSONAL TAX CUTS [EFFECTIVE FROM 1 JULY 2020]

Personal income tax cuts that were legislated to commence on 1 July 2022 will be brought forward to commence from 1 July 2020.

Tax Rates

2019/2020		2020/2021		2024/2025 *	
Income Band	**Tax Rate**	**Income Band**	**Tax Rate**	**Income Band**	**Tax Rate**
0 - 18,200	0	0 - 18,200	0	0 - 18,200	0
18,201 - 37,000	19%	18,201 - 45,000	19%	18,201 - 45,000	19%
37,001 - 90,000	32.50%	45,001 - 120,000	32.50%	45,001 - 200,000	30%
90,001 - 180,000	37%	120,001 - 180,000	37%		
180,001 +	45%	180,001 +	45%	200,001 +	45%

*Already legislated

Low Income Tax Offset (LITO)	
Income Band $	**Offset $**
0 - 37,500	$700
37,501 - 45,000	$700 - (TI - $37,500) x 5% $325 - (TI - $45,000) x
45,001 - 66,667	1.5%
66,668 +	$nil

Low & Middle Income Tax Offset (LMITO)	
Income Band $	**Offset $**
0 - 37,000	255
37,001 - 48,000	255 + (TI-37,000) x 7.5%
48,001 - 90,000	1,080
90,001 - 126,000	1,080 - (TI-90,000) x 3%
126,001 +	$nil

This means that the effective tax-free threshold for singles will be $22,800 – the income threshold where the Medicare Levy commences.

CGT EXEMPTION FOR GRANNY FLATS [EFFECTIVE FROM 1 JULY 2021]

Currently, the creation of a formal arrangement where money is provided to a homeowner to build a granny flat with the proviso that the person providing the money has a right of occupancy in the flat, with a return of money when the residence is sold, can cause a CGT event for the home owner with no exemptions or discount.

A specific CGT exemption will be provided in such circumstances. This will provide certainty to home owners and certainty to vulnerable older people who will receive certainty of tenure.

BUSINESS

UNCAPPED IMMEDIATE WRITE-OFF
for depreciating assets

ADDITIONAL $2Bn R & D TAX INCENTIVE

FBT RECORD KEEPING SIMPLIFIED

EXPANDING SMALL BUSINESS TAX CONCESSIONS

RETRAINING & RESKILLING FBT EXEMPTION

TAX LOSS CARRY-BACK
on previous year company profits

INTERNATIONAL BUSINESS
Corporate residency test clarified

TAX FREE BUSINESS SUPPORT GRANTS (VIC)

BUSINESS

Business is certainly the big winner from this budget with many measures reducing tax to provide business with cashflows to keep spending to stimulate the economy.

SMALL BUSINESS THRESHOLD EXPANDED

The definition of a 'small business' will be extended to businesses with an aggregated turnover of up to $50 Million (from $10 million) for the purpose of certain small business tax concessions.

This will provide access to concessional tax treatments including the following:

- Immediate deduction for start-up expenses and prepaid expenses [effective from 1 July 2020]
- FBT exemption for car parking benefits and multiple electronic devices [effective from 1 April 2021]

Other rules [effective from 1 July 2021]

- Simplified trading stock rules
- Remitting PAYG on GDP adjusted notional tax method
- Settle excise customs duty on monthly basis
- Two-year amendment period
- Simplified accounting method determination for GST

While the above measures are welcomed, other 'small business' measures such as simplified depreciation will retain the original turnover threshold of $10 Million. Multiple 'small business' definitions could create confusion and uncertainty for businesses.

INSTANT ASSET WRITE-OFF [EFFECTIVE FROM 6 OCTOBER 2020]

An expansion of the already generous COVID-19 stimulus will mean that any business with aggregated turnover of up to $5 Billion will be allowed to deduct the full cost of new depreciable assets (and improvements to existing assets) acquired after 6 October 2020 and installed by 30 June 2022.

Business with an aggregated turnover of < $500 Million can acquire second hand assets costing less than $150,000, purchased by 31 December 2020 and installed by 30 June 2021 and claim a deduction for the full cost.

Small businesses (turnover < $10 Million) will be able to write-off the balance of their existing 'small business pool'.

COMPANY LOSS CARRY-BACK [EFFECTIVE FROM 1 JULY 2020]

A temporary loss carry-back mechanism will be introduced for companies with aggregated turnover of < $5 Billion.

Losses incurred in the 2019-20, 2020-21 and 2021-22 years will be allowed to be carried back and deducted against taxable income generated in the 2018-19, 2019-20 and 2020-21 years.

The loss carry back will generate a refundable tax offset in the year the loss is made. The offset will be limited to the amount of the prior year's taxable income and also the tax-offset must not generate a franking deficit.

The loss carry-back measure will not apply to businesses that trade through other structures such as sole traders, trusts and partnerships.

VICTORIAN GOVERNMENT BUSINESS SUPPORT GRANTS – TAX FREE [EFFECTIVE FROM 13 SEPTEMBER 2020]

Victorian Government's business support grants paid between 13 September 2020 and 30 June 2021 will be treated as non-assessable, non-exempt (NANE) income. This may also be extended to other States for similar support grants made.

RESEARCH & DEVELOPMENT (R & D) TAX INCENTIVE

The R & D Tax Incentive rules will be enhanced to encourage more investment in R & D.

Proposed changes to apply from 1 July 2021 include:

- Refundable Tax Offset of 18.5% above company tax rate (turnover below $20 Million)
- Removal of prior announced $4 Million cash refund cap
- Non-refundable tax offset for companies with turnover > $20 Million to apply as follows:
    - Base rate of 8.5% above company tax rate where R & D expenditure is up to 2% of total expenditure.
    - 16.5% above company tax rate where R & D expenditure is > 2% of total expenditure.
- Other announced but unenacted R & D changes to proceed.

These measures will provide more certainty to business to encourage investment in R & D.

FRINGE BENEFITS TAX (FBT)

RETRAINING & RESKILLING WORKERS

Exemption for retraining and reskilling workers. Where a business provides retraining or reskilling benefits to workers that have been, or will be made redundant from their current position, those benefits will be exempt from FBT. [Effective from 2 October 2020]

Currently such benefits not sufficiently connected with current employment would be subject to FBT.

The Government will also reconsider the tax deductibility of similar expenditure incurred by the individual (currently not deductible).

RECORD KEEPING

The ATO will be provided with power to rely on existing corporate records rather than employee declarations to access certain exemptions or reductions. Currently employers must request formal declarations from employees, in order to access certain concessions. Allowing the use of existing corporate records will remove red tape and paperwork.

INTERNATIONAL BUSINESS

CORPORATE TAX RESIDENCY [ROYAL ASSENT]

Technical Amendments will be made to the corporate residency test such that a company incorporated overseas will be treated as an Australian resident where:

- Core commercial activities are undertaken in Australia; and
- Central management and control is in Australia.

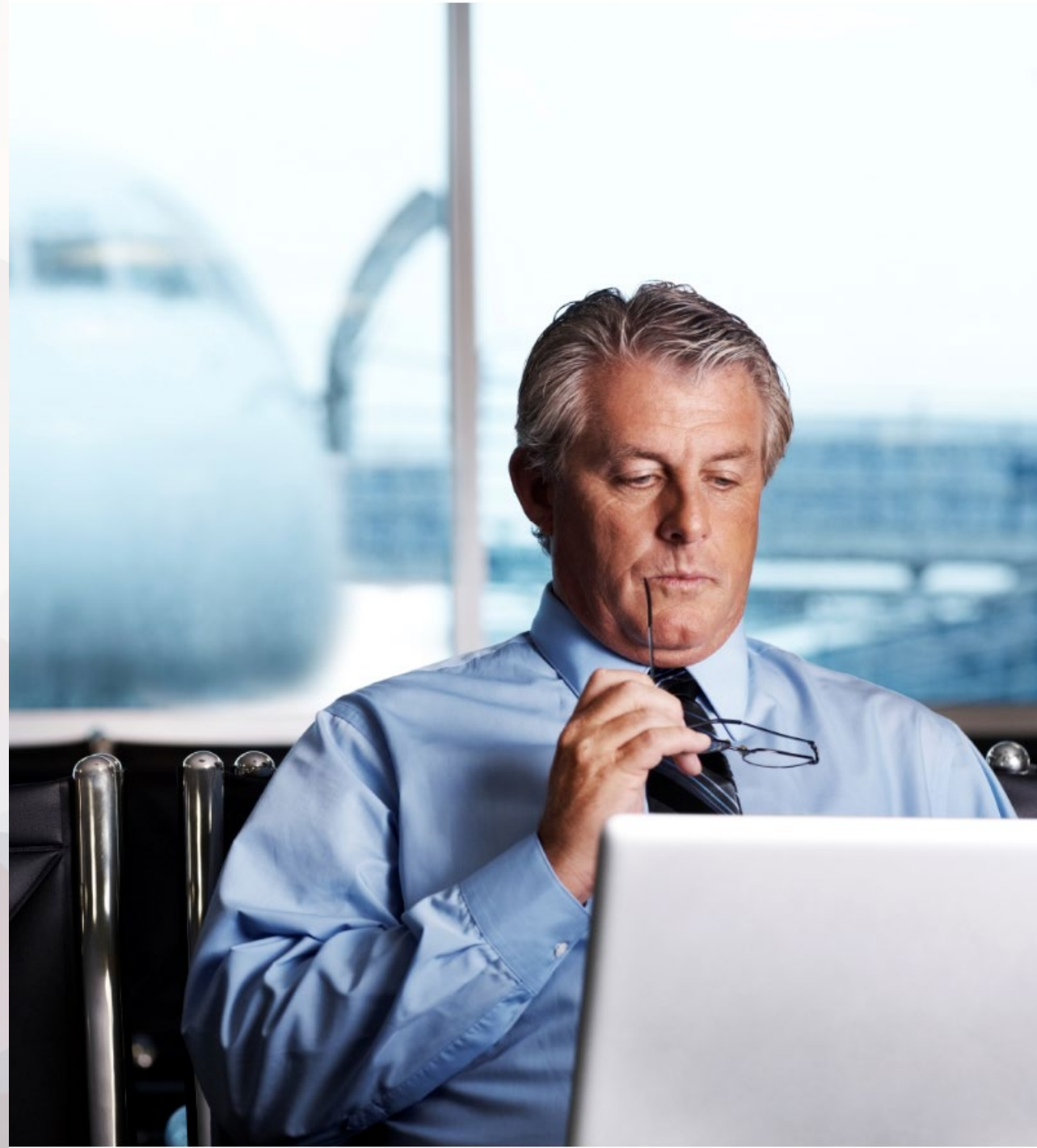
This announcement is welcome as the prior corporate residency rules were challenged by the High Court decision in Bywater Investments Ltd v FCT FCA 45 which significantly broadened the scope of the rules.

The requirement to have core commercial activities being undertaken in Australia should provide more certainty to foreign companies.

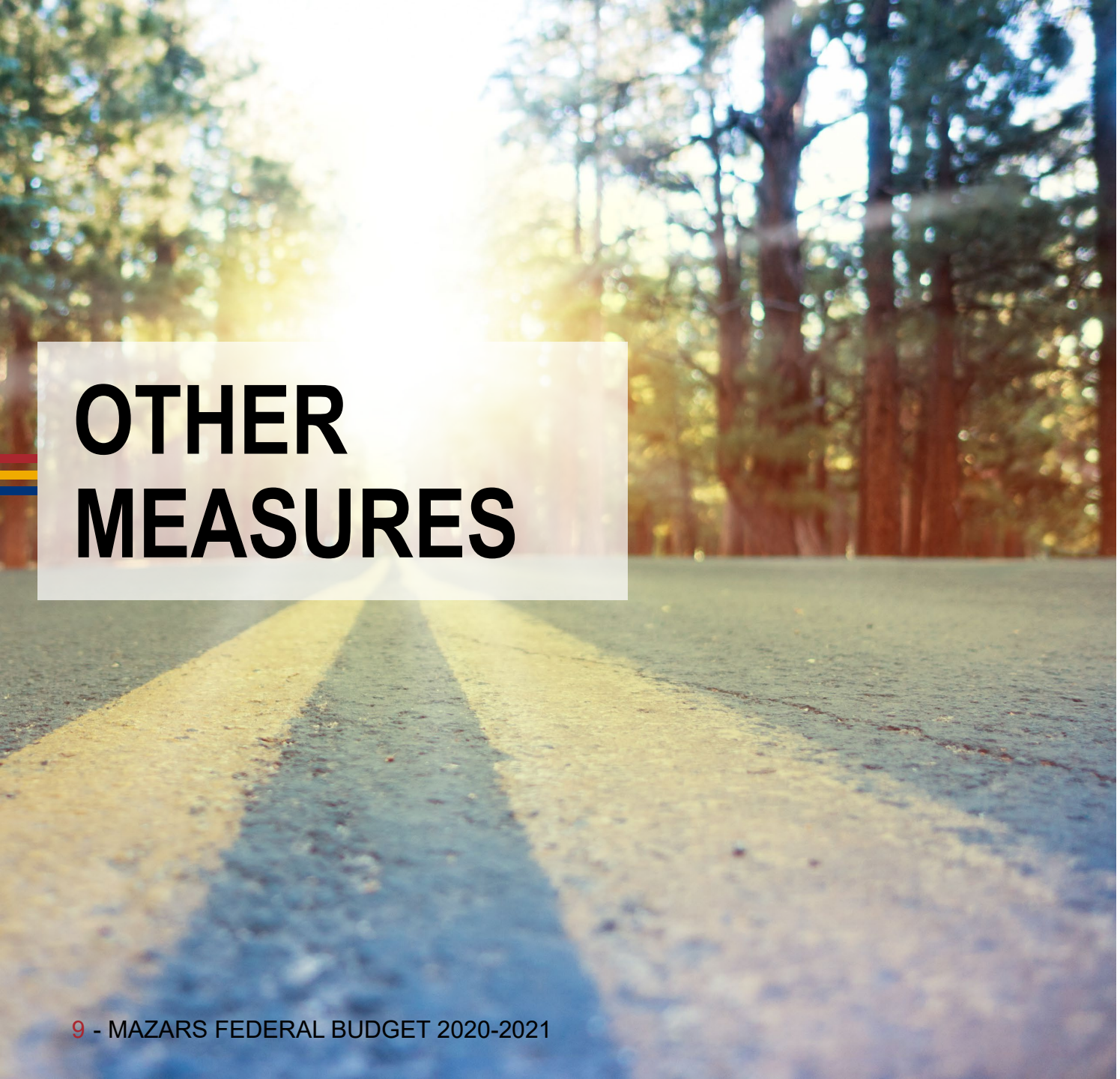
TAX TREATY & INFORMATION EXCHANGE EXPANSION

The Government will “prioritise refurbishing Australia’s treaties with key strategic partners”. It will also seek to expand the treaty network to eliminate double taxation and attract foreign investment.

It will also update the list of jurisdictions with an effective information sharing agreement to include 9 further jurisdictions including Hong Kong. This helps to protect against global tax avoidance. Investors from countries with information sharing agreements are able to access concessional Managed Investment Trust withholding tax rate of 15%. [Effective from 1 July 2021]



OTHER MEASURES



JOBMAKER HIRING CREDIT

APPRENTICE SUBSIDY 50% OF WAGES

INSOLVENCY REFORMS TO SUPPORT SMALL BUSINESS

OTHER MEASURES

In addition to encouraging business spending through tax cuts and concessions, the Government has many other measures to stimulate the economy.

JOBMAKER HIRING CREDIT

To encourage business to take on additional employees, the Government will provide a 'Hiring Credit' for each eligible employee for 12 months from 7 October 2020.

Employers must demonstrate the new employee will increase overall headcount (from reference date of 30 September 2020) and payroll (over quarter ended 30 September 2020).

Employers will receive $200 per week per eligible employee aged between 16 and 29 years and $100 per week per eligible employee aged from 30 to 35 years, but is capped at the increase in payroll over the reporting period.

Employees will need to work a minimum of 20 hours per week (averaged over the quarter) and have received Jobseeker payment, youth allowance or parenting payment for at least one month in the last three prior to hiring.

Employers who are claiming Jobkeeper payment are ineligible.

Employers can claim the JobMaker hiring credit quarterly in arrears. It is expected the JobMaker hiring credit will be assessable income to the business.

APPRENTICE SUBSIDY

100,000 new apprenticeships or traineeships will receive support of 50% of the wages from until 30 September 2020. This builds on the earlier apprentice support announced as part of the initial COVID19 stimulus.

INSOLVENCY REFORMS [EFFECTIVE FROM 1 JANUARY 2021]

Significant corporate insolvency reforms have been proposed to allow small business to quickly and more efficiently restructure. These include:

- Debt restructuring process (modelled on US Chapter 11) for business with liabilities of less than $1 Million. This should allow debtors to restructure their debts, while remaining in control of their business;
- Introduction of a small business restructuring practitioner to develop a restructuring plan (subject to creditor vote);
- Access to a faster, shorter, lower cost liquidation pathway;
- Provision of temporary insolvency relief while waiting for small business restructuring process

SUPERANNUATION

NO MAJOR CHANGES TO SUPERANNUATION

YOUR FUTURE, YOUR SUPER

SUPERANNUATION

With the impacts of COVID-19 continuing to cause havoc across the world, this year's Federal Budget focused mainly on jobs and getting the economy going again. This left superannuation to take a back seat with the Government holding to their election promise that there would be no adverse tax changes to the superannuation system.

For the first time in several years there was a welcome respite for Self Managed Superannuation Funds (SMSFs) with no changes announced. However, the Government did announce a "Your Future, Your Super" package with the intent to reform superannuation so that it works harder for Australians.

Commencing from 1 July 2021, the four measures in this package are:

1. STAPLED SUPERANNUATION ACCOUNTS

To avoid the creation of new superannuation accounts whenever a person changes employment, their existing account will effectively be "stapled" to them. This will require employers to pay contributions to their current fund if they have one unless they select another fund. Currently, Australians are paying $450 million a year in unnecessary fees across 6 million multiple accounts so any moves to reduce this are beneficial.

2. 'YOURSUPER' PORTAL

A system will be developed to enable new employees to select a superannuation fund from a table of MySuper products via a portal. The YourSuper portal will provide a table of products ranked by fees and investments returns to assist with choice.

3. INCREASED BENCHMARKING TESTS ON APRA FUNDS

The Australian Prudential Regulation Authority (APRA) will undertake benchmarking tests on the net investment performance of MySuper products. Underperforming products over two consecutive annual tests will be prohibited from accepting new members until they show they are no longer underperforming.

4. STRENGTHENING OBLIGATIONS ON TRUSTEES OF LARGE APRA FUNDS

Trustees of large funds will be required to comply with a new duty to act in the best financial interests of members. They will need to demonstrate there was a reasonable basis that their actions were consistent with maximising member's retirement savings.

SUPERANNUATION

OTHER MEASURES

The Government also confirmed its intention to proceed with the proposed increase to the superannuation guarantee rate from 9.5% to 10% from 1 July 2021.

In addition, there is to be no extension past the 2020/21 financial year to the minimum pension drawdown reduction or past 31 December 2020 to the COVID-19 early release of superannuation.

SUMMARY

People's superannuation is often "out-of-sight, out-of-mind" until they get closer to retirement so the Government's intention to improve the system by putting scrutiny on performance and fees will hopefully provide long-term benefits. It is estimated that there are 3 million underperforming accounts managing over $100 billion of Australian's retirement savings so this is an issue which needs to be rectified.

By not changing any fundamental rules or taxes there is some welcome stability in the system so confidence can continue to return. While this Budget may not seem to provide much for self-funded retirees, the focus on improving the economy will ideally lead to improved investment returns and income.

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