

## TaxWise

Special Budget Edition

October 2020



## 2020–21 Special Budget Edition

### A big spending Budget that is all about jobs

On Tuesday 6 October, the Treasurer, The Hon Josh Frydenberg MP, delivered the delayed 2020–21 Federal Budget, his second Budget.

How times change. In April last year, Mr Frydenberg delivered a Budget that was forecast to produce a surplus. Now, thanks largely to the economic shocks resulting from the COVID-19 pandemic, the Government is faced with record deficits and high unemployment.

The Government's response is a Budget that is "all about jobs", "helping those who are out of a job get into a job" and "helping those that are in work, stay in work". Mr Frydenberg said "there is no economic

recovery without a jobs recovery" and "no budget recovery without a jobs recovery".

To that end, the government is spending a lot of money – both directly and indirectly (bringing forward the 2022–23 tax cuts and providing incentives for business to hire and invest). The Government's overall "response and recovery support" is \$507 billion, including \$257 billion in direct economic support.

But it may not end there. As Treasury points out, there remains substantial uncertainty around the global and domestic outlook, including around the spread of the coronavirus, future outbreaks, as well as timing and efficacy of vaccines and other medical treatments. Only time will tell if the measures in this Budget are sufficient and/or well targeted.

## Big picture overview

The big picture highlights of this year's Budget:

- **Deficit:** \$213.7 billion (or 11% of GDP) in 2020–21, falling to \$66.9 billion (3.0% of GDP) in 2023–24 and \$49.5 billion (1.6% of GDP) by the end of the medium term
- **Net debt:** \$703 billion (or 36.1% of GDP) for 2020–21, rising to \$966 billion (or 43.8% of GDP) by the end of the June 2024 quarter. Net debt is then projected to fall to 39.6% of GDP at the end of the medium term
- **Economic growth:** The economy is forecast to fall by 3.75% this calendar year, but to grow by 4.25% in 2021
- **Unemployment:** Unemployment is to peak at 8% in the December 2020 quarter and to fall to 6.5% by the June 2022 quarter
- **Total tax receipts:** \$424.6 billion (\$364.7 billion excluding GST) for 2020–21 – revised down by \$55.2 billion compared with the 2019–20 MYEFO but revised up by \$8.7 billion since the July 2020 Economic and Fiscal Update (driven by stronger-than-expected labour market outcomes, higher commodity prices, and a shallower-than-expected deterioration in asset prices).

## Other announcements

- **Health (COVID-19):** Over \$750 million to support the continuation of COVID-19 testing, \$170.8 million for the continued operation of up to 150 dedicated respiratory clinics to manage and diagnose COVID-19 cases; \$1.1 billion to States and Territories through a funding agreement on COVID-19 Response (in addition to the \$3.7 billion already provided); \$111.6 million to support the continuation of temporary MBS telehealth services for GP consultations, mental health, allied health and specialist services
- **COVID-19 vaccine:** \$1.7 billion over two years from 2020–21 to secure access to over 84.8 million doses of potential vaccine candidates developed by the University of Oxford and the University of Queensland; \$123.2 million to join the international COVAX facility; \$24.7 million to purchase vaccine needles, syringes and sharps disposal containers
- **Mental health:** \$100.8 million over two years from 2020–21 to ensure people with a mental health care plan can access up to 10 additional Medicare-subsidised individual psychological therapy sessions
- **Aged care:** \$245 million to support aged care providers to meet additional costs associated with COVID-19; \$205.1 million for the Workforce Retention Bonus Payments for aged care workers; \$103.4 million to extend the Aged Care COVID-19 preparedness measure
- **Child care:** A Victorian recovery payment equivalent to 25% of pre-COVID revenue through to 31 January 2021 - conditional on maintaining a fee freeze at pre-COVID-19 levels and child care services maintaining the Employee Guarantee protections for relevant employees
- **Health insurance:** Increasing the maximum age of dependents allowed under private health insurance policies from 24 to 31 years and removing the age limit for dependents with a disability
- **Housing:** Extending the First Home Loan Deposit Scheme by a further 10,000 places; enabling the National Housing Finance and Investment Corporation to issue an additional \$1 billion worth of bonds to attract investment to increase the supply of affordable housing
- **Higher education:** \$1 billion in new research funding to the university sector in 2020–21; \$251.8 million over two years to support the delivery of 50,000 online short courses online in areas such as teaching, health, science, information technology and agriculture; \$298.5 million over four years to provide an additional 12,000 undergraduate Commonwealth Supported Places in 2021 prioritised according to labour market need, skills gaps, industry engagement and expected student demand
- **Jobseekers:** \$295.9 million to deliver a new Digital Employment Services platform that will assist job seekers in managing their own way into employment and training; \$183.1 million to provide responsive and individualised support to online job seekers, including through a Digital Services Contact Centre; \$62.8 million to establish a new Local Jobs Program to connect job seekers to local employment opportunities
- **Infrastructure (general):** \$14 billion over the forward estimates period for new and accelerated projects since the onset of the COVID-19 pandemic; a new \$2 billion Road Safety Program; an additional \$1 billion of funding for the Local Roads and Community Infrastructure Program
- **Infrastructure (specific projects):** \$603 million for the New England Highway Singleton Bypass and Bolivia Hill Upgrade (NSW); an additional \$491 million for the Coffs Harbour Bypass (NSW); \$528 million for upgrades to the

Shepparton and Warrnambool rail lines (Vic); \$750 million for Stage 1 of the Coomera Connector (Qld); \$227 million for METRONET – High Capacity Signalling and Morley Ellenbrook Line and \$87.5 million for Reid Highway Interchanges – West Swan Road (WA); \$200 million for the Hahndorf Township Improvements and Access Upgrade and \$136 million to progress the Main South Road Duplication Stage 2 (SA); \$65 million for the Tasman Bridge Upgrade (Tas)

- **Manufacturing:** \$1.3 billion for the Modern Manufacturing Initiative; \$107.2 million for the Supply Chain Resilience Initiative
- **Regional Australia:** \$550 million for a package of measures to support regional Australia recover from the impacts of COVID-19, including \$250 million for a Regional Tourism Recovery Package
- **Online:** accelerated adoption of digital technologies to increase productivity and jobs growth and bring Australia closer to its goal of being a leading digital economy by 2030
- **Agriculture:** \$328.4 million over four years to bust congestion in the regulation of farm exports, making it easier for farmers to get their goods to market and helping rural Australia to recover from drought and COVID-19
- **Trade:** \$28.6 million to support initiatives to modernise Australia's trade system and streamline border services
- **Fighting crime:** \$15.1 million to the ATO to target serious and organised crime in the tax and superannuation systems.



## Budget measures for individuals

Here are some of the Budget measures that will affect individuals.

### Low and middle-income earners – tax cuts

As widely anticipated, the government will bring forward to the current tax year (2020–21) the tax cuts scheduled to apply for 2022–23 and 2023–24 (Stage 2 tax cuts). Those rates will therefore apply for 2020–21, 2021–22, 2022–23 and 2023–24.

#### Income tax rates from 2020–21 to 2023–24 — residents

Taxable income	Tax rate
Up to \$18,200	Nil
\$18,201–\$45,000	19%
\$45,001–\$120,000	32.5%
\$120,001–\$180,000	37%
\$180,001 and over	45%

The legislated 2022–23 and 2023–24 rates for non-residents and working holiday makers will also be brought forward to 2020–21.

The legislated rates to apply from 2024–25 under the Stage 3 tax cuts are unchanged.

#### Income tax rates from 2024–25 — residents

Taxable income	Tax rate
Up to \$18,200	Nil
\$18,201–\$45,000	19%
\$45,001–\$200,000	30%
\$200,001 and over	45%

### Low income tax offset

As a consequence of bringing forward the Stage 2 tax cuts due to start in 2022–23, the new low income tax offset (LITO) will apply from the current tax year (2020–21), replacing the existing LITO.

The maximum amount of the new LITO will be \$700, payable for taxable incomes up to \$37,500. No LITO will be payable once taxable income reaches \$66,667.

Taxable income	Amount of LITO
\$0–\$37,500	\$700
\$37,501–\$45,000	\$700, less 5% of the excess
\$45,001–\$66,667	\$325, less 1.5% of the excess

## Low and middle income offset retained for one year

The low and middle income tax offset (LMITO) was legislated to cease from 2022–23 when the new LITO was going to be introduced. Although the new LITO has been brought forward to the current tax year, LMITO has not been scrapped – and will still apply for 2020–21 (but not beyond).

Taxable income	Amount of LMITO
<b>\$0–\$37,000</b>	\$255
<b>\$37,001 - \$48,000</b>	\$255, plus 7.5% of the excess
<b>\$48,001 - \$90,000</b>	\$1,080
<b>\$90,001 - 126,000</b>	\$1,080, less 3% of the excess
<b>\$126,001 +</b>	Nil

## Summary of individual income tax rates — residents

To 30 June 2018		STAGE 1 From 1 July 2018 (Legislated)	
Income threshold	Tax rate	Income threshold	Tax rate
<b>\$18,200</b>	19%	\$18,200	19%
<b>\$37,000</b>	32.5%	\$37,000	32.5%
<b>\$87,000</b>	37%	<b>\$90,000</b>	37%
<b>\$180,000</b>	45%	\$180,000	45%
STAGE 2 From 1 July 2020 (Bill awaits Royal Assent)		STAGE 3 From 1 July 2024 (Legislated)	
Income threshold	Tax rate	Income threshold	Tax rate
<b>\$18,200</b>	19%	\$18,200	19%
<b>\$45,000</b>	32.5%	<b>\$45,000</b>	<b>30%</b>
<b>\$120,000</b>	37%	<b>\$200,000</b>	45%
<b>\$180,000</b>	45%		

## Stimulus payments

The Government will provide two separate \$250 economic support payments to eligible recipients of the following payments:

- Age Pension;
- Disability Support Pension;
- Carer Payment;
- Family Tax Benefit, including Double Orphan Pension (not in receipt of a primary income support payment); and
- Carer Allowance (not in receipt of a primary income support payment).

Pensioner Concession Card (PCC) holders (not in receipt of a primary income support payment), Commonwealth Seniors Health Card holders and eligible Veterans' Affairs payment recipients and concession card holders will also receive the payments.

The first payment will be made from November 2020 and the second from early 2021.

The \$250 cash payments are tax exempt and will not count as income support for social security purposes.

## CGT exemption for granny flats

The Government will put in place a "targeted" CGT exemption for "granny flat" arrangements.

CGT will not apply to the creation, variation or termination of arrangements that provide accommodation for "older Australians or people with disabilities".

The exemption 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 measure is proposed to commence from 1 July 2021.

## Paid Parental Leave (PPL)

The PPL work test period will be temporarily extended in response to the COVID-19 pandemic. Under normal circumstances, parents must have worked 10 of the 13 months prior to the birth or adoption of their child to qualify for PPL (and for Dad and Partner Pay). The work test period is to be temporarily extended to 10 out of 20 months for births and adoptions that occur between 22 March 2020 and 31 March 2021.



## Tax concessions for medium businesses

A number of small business tax concessions will be extended to medium businesses, i.e. businesses whose annual aggregated turnover is \$10 million or more but less than \$50 million.

- From 1 July 2020, eligible businesses will be able to immediately deduct certain start-up expenses and certain prepaid expenditure.
- From 1 April 2021, eligible businesses will be exempt from FBT on car parking and multiple work-related portable electronic devices, such as phones or laptops, provided to employees.
- From 1 July 2021, eligible businesses will be able to access the simplified trading stock rules, remit pay as you go (PAYG) instalments based on GDP adjusted notional tax, and settle excise duty and excise-equivalent customs duty monthly on eligible goods.
- From 1 July 2021, eligible businesses will have a two-year (instead of the current four-year) amendment period apply to income tax assessments for income years.
- From 1 July 2021, the ATO's power to create a simplified accounting method determination for GST purposes will be expanded to apply to businesses below the \$50 million aggregated annual turnover threshold.

These measures were first announced on 2 October.

## Small business tax rates going forward

- 2020–21: For unincorporated businesses, the small business income tax offset discount rate

will be 13% and 16% from 2021–22. The discount rate was 8% in 2019–20.

- 2021–22: For base rate entities (i.e. companies with an aggregated turnover of less than \$50 million and base rate entity passive income that is no more than 80% of the company's assessable income), a tax rate of 25% will apply. The tax rate for base rate entities is 26% for 2020–21 and was 27.5% in 2019–20.



## Other Budget business measures

There are a number of measures in the Budget that impact nearly all businesses.

### Capital assets – full cost deductible

Businesses with aggregated annual turnover of less than \$5 billion will be able to deduct the full cost of eligible capital assets acquired from 7:30pm (AEDT) on 6 October 2020 (i.e. Budget night) and first used or installed by 30 June 2022 (but not if acquired under a pre-Budget night commitment).

Full expensing in the year of first use will apply to new depreciable assets and the cost of improvements to existing eligible assets. For small and medium sized businesses (i.e. those with aggregated annual turnover of less than \$50 million), full expensing will also be available for second hand assets.

Businesses with aggregated annual turnover between of \$50 million or more and less than \$500 million can still deduct the full cost of eligible second hand assets costing less than \$150,000 that are purchased by 31 December 2020 under the enhanced instant asset write-off (IAWO). Businesses that hold assets eligible for the

enhanced \$150,000 IAWO will have an extra six months, until 30 June 2021, to first use or install those assets.

Small businesses (aggregated annual turnover less than \$10 million) are required to deduct the balance of their general small business pool at the end of the income year while full expensing applies. The “lock-out” rule which prevents small businesses from re-entering the simplified depreciation regime for five years if they opt-out will continue to be suspended.

## Temporary loss carry back

A temporary loss carry back has returned (remember the loss carry back that applied in 2013?).

Corporate tax entities with an aggregated turnover of less than \$5 billion will be able to carry back a tax loss for the 2019–20, 2020–21 or 2021–22 income year and apply it against tax paid in a previous income year as far back as 2018–19, to produce a refundable tax offset. Alternatively, a corporate tax entity can still carry the loss forward (using the existing loss carry forward rules).

The amount of the refundable tax offset will be based on the entity’s tax rate in the loss year. However, the amount cannot exceed:

- the amount of earlier tax paid by the entity; and
- the entity’s franking account balance at the end of the income year for which the refundable tax offset is claimed.

Any loss carried back must be first reduced by any net exempt income the entity has for the year the loss is carried back to.

There will be an integrity rule consistent with the integrity rule that applied under the previous loss carry back rules. The integrity rule will deny a company a loss carry back tax offset it would otherwise be entitled to if there has been a change in the control of the entity (based on shareholder voting power) and, considering all of the relevant circumstances, one or more of the parties entered into a scheme for a purpose (whether or not a dominant purpose but not including an incidental purpose) to obtain the tax offset.

## Job creation incentives

Two measures to encourage hiring are:

- a 50% wage subsidy for any Australian business which take on a new Australian apprentice from 5 October 2020 to 30 September 2021 (capped at \$7,000 per quarter for each apprentice);
- a credit (the new JobMaker Hiring Credit) for each additional new job created before 7 October 2021. The credit will be \$200 per week for employees aged 16 to 29 and \$100 per week for employees aged 30 to 35 (up to 52 weeks maximum). The new employee must work for a minimum of 20 hours per week and have been out of work for a certain period prior to being hired.

## R&D changes

The Government will make further enhancements to the R&D changes that are presently before Parliament.

For companies with an aggregated annual turnover of 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, and the \$4 million cap on annual cash refunds will not proceed.

For companies with an aggregated annual turnover of \$20 million or more, the number of intensity tiers will be reduced from three to two. The marginal R&D premium will be the claimant’s company tax rate plus:

- 8.5 percentage points above the claimant’s company tax rate for R&D expenditure between 0% and 2% R&D intensity;
- 16.5 percentage points above the claimant’s company tax rate for R&D expenditure above 2% R&D intensity.

## FBT exemption for training

Employer-provided retraining and reskilling benefits provided to redundant, or soon to be redundant, employees where the benefits are not related to their current employment will be exempt from FBT. This will apply from 2 October 2020 (when the measure was first announced).

The exemption will not extend to retraining acquired by way of a salary packaging arrangement or training provided through Commonwealth supported places at universities.

The Government will also consult on allowing an individual to deduct education and training

expenses they incur themselves where the expense is not related to their current employment.

## FBT record-keeping

To reduce the FBT compliance burden, the Government will provide the ATO with the power to allow employers to rely on existing corporate records, rather than employee declarations and other prescribed records, to finalise their FBT returns.

This measure will apply from the start of the first FBT year (1 April) after the date on which the enabling legislation receives Royal Assent.

## COVID-19 support grants NANE income

The Victorian Government's business support grants for small and medium business will be non-assessable, non-exempt (NANE) income for tax purposes (if made between 13 September 2020 and 30 June 2021).

Similar grants made by other States and Territories will also be NANE income if the Federal Government agrees.

## Corporate residency test - clarification

The law will be amended so that a company incorporated offshore will be treated as an Australian tax resident if it has a "significant economic connection to Australia".

The change takes effect from the first 1 July following the date of Royal Assent of enabling legislation, but taxpayers will have the option of applying the new law from 15 March 2017.

### Note!

Talk to your tax adviser about any questions that arise or the impact of the Budget measures on you or your business.

## JobKeeper – reminder

As reported in the September edition of *TaxWise*, the Government has extended the JobKeeper scheme until 28 March 2021 and expanded so more employees are eligible. However, the payment rates have been reduced.

Period	Higher rate per fortnight	Lower rate per fortnight
28 Sep 2020 to 3 Jan 2021	\$1,200	\$750
4 Jan 2021 to 28 Mar 2021	\$1,000	\$650

The higher rate applies to:

- eligible employees whose total hours of work in the 'reference period' was 80 hours or more — the 'reference period' is the 28-day period ending at the end of the employee's most recent pay cycle before 1 March 2020 or 1 July 2020 (the employer may use either period); and
- eligible business participants (including sole traders) who were actively engaged in the business for 80 hours or more in the 'reference period' — for eligible business participants, the reference period is February 2020.

The lower rate will apply to all other eligible employees/business participants.



## Key tax dates

Date	Obligation
14 Oct 2020	September JobKeeper monthly business declaration due
21 Oct 2020	September monthly BAS due Payment of annual PAYG instalment for 2019–20
28 Oct 2020	September quarter BAS due Payment of first PAYG instalment for 2020–21 by quarterly payers
31 Oct 2020*	2019–20 income tax return due
	PAYG withholding annual reports due (no ABN withholding; interest, dividend and royalty payments paid to non-residents; and payments to foreign residents)
	Last date to meet JobKeeper wage condition for fortnights ending 11 October 2020 and 25 October 2020 (JobKeeper fortnights 14 and 15)

<b>8 Nov 2020</b>	Last date to meet JobKeeper wage condition for fortnight ending 8 November 2020 (JobKeeper fortnight 16)
<b>14 Nov 2020*</b>	October JobKeeper monthly business declaration due
<b>21 Nov 2020*</b>	October monthly BAS due
<b>22 Nov 2020</b>	Last date to meet JobKeeper wage condition for fortnight ending 22 November 2020 (JobKeeper fortnight 17)
<b>1 Dec 2020</b>	Payment of 2019–20 tax by companies (30 June balancers)
<b>6 Dec 2020</b>	Last date to meet JobKeeper wage condition for fortnight ending 6 December 2020 (JobKeeper fortnight 18)
<b>20 Dec 2020</b>	Last date to meet JobKeeper wage condition for fortnight ending 20 December 2020 (JobKeeper fortnight 19)
<b>21 Dec 2020</b>	November monthly BAS due
<b>3 Jan 2021</b>	Last date to meet JobKeeper wage condition for fortnight ending 3 January 2021 (JobKeeper fortnight 20)

\*Next business day.

### **Note!**

Talk to your tax agent to confirm the correct due dates for your own tax obligations. For example, you may have more time to lodge and pay if impacted by the COVID-19 pandemic.

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