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CHARTERED ACCOUNTANTS

"Making Your Business Count"

Federal budget | May 2021

The Federal Treasurer, Mr Josh Frydenberg, handed down the 2021–22 Federal Budget 11 May 2021. A stronger than expected economic recovery from the COVID-19 recession has resulted in a budget deficit of $161 billion, $52.7 billion lower than the government's expected deficit. With the virus still a threat to the global and domestic economy, the Budget contains various measures to support businesses and individuals with job creation, incentives, tax relief and superannuation changes.

PERSONAL TAXATION

Low- and middle-income tax offset extended for 2021–22.

The low- and middle-income tax offset (LMITO) (maximum $1,080) will be extended for another year into 2021–22. The LMITO was due to be removed on 30 June 2021.

The amount of the LMITO is $255 for taxpayers with a taxable income of $37,000 or less. Between $37,000 and $48,000, the value of LMITO increases at a rate of 7.5 cents per dollar to the maximum amount of $1,080. Taxpayers with taxable incomes from $48,000 to $90,000 are eligible for the maximum LMITO of $1,080. From $90,001 to $126,000, LMITO phases out at a rate of 3 cents per dollar.

The government did not announce changes to personal tax rates.

Individual tax residency rules simplified effect from the 1 July following assent of the enabling legislation.

The individual tax residency rules will be replaced. Under the new primary test, a person who is physically present in Australia for 183 days or more in any income year will be an Australian tax resident for tax purposes.

Individuals who do not meet the primary test will be subject to secondary tests that consider a combination of physical presence and other criteria.

$250 exclusion on self-education deductions to be removed.

The current limitation for individuals claiming self-education expenses, where the first $250 of the deduction is denied, will be removed.

The change will come into effect from the income year following the date of assent of the relevant legislation.

Home ownership funding package

The government will provide $782 million over 4 years from 2021–22 to increase home ownership and support jobs in the residential construction sector.

Funding in this package includes:

- establishing the Family Home Guarantee with 10,000 places to support single parents with dependants to enter, or re-enter, the housing market with a deposit of 2%
- extending the first home loan deposit scheme to provide an additional 10,000 new home guarantees in 2021–22 to allow eligible first home buyers to build a new home or purchase a newly constructed home with a deposit of 5%

Childcare subsidy to increase.

Commencing on 1 July 2022, the Government will:

- increase the childcare subsidies available to families with more than one child aged 5 and under in childcare by adding an additional 30 percentage point subsidy for every second and third child.

BUSINESS TAXATION

Extension to temporary full expensing

Temporary full expensing of eligible assets will be extended by 12 months to 30 June 2023. Eligible businesses with aggregated turnover or income less than $5 billion will be able to **deduct** the **full cost** of eligible depreciating assets acquired from 7:30pm AEDT on 6 October 2020 and first used or installed ready for use by 30 June 2023. All other aspects of the temporary full expensing rules first introduced in the 2020–21 Budget will remain unchanged.

Extension to temporary loss carry back offset.

The temporary loss carry back offset will be extended by one year to apply for 2022– 23 income year losses. Eligible corporate tax entities with aggregated turnover less than $5 billion will be able to carry back losses from the 2022–23 income year to offset previously taxed profits made in or after the 2018–19 income year. The loss that can be carried back is limited by the amount of earlier taxed profits and cannot generate a franking account deficit.

Removing the $450 per month superannuation guarantee threshold

The employer exemption from superannuation guarantee payments for individuals earning less than $450 in salary or wages in a calendar month will be removed. Expected to take effect from the 1 July following legislation receiving assent.

Tax-deferred employee share schemes (ESS) — ceasing employment no longer a taxing point will apply to ESS interests issued from the first income year after assent of the amending legislation.

The cessation of employment taxing point will be removed for tax-deferred employee share schemes (ESS) that are available for all companies.

Under existing rules for a tax deferred ESS, where certain criteria are met employees may defer tax until a later tax year (known as the deferred taxing point). By removing the cessation of employment taxing point, the deferred taxing point will be the earliest of:

• in the case of shares, when there is no risk of forfeiture and no restrictions on disposal

• in the case of options, when the employee exercises the option and there is no risk of forfeiting the resulting share and no restriction on disposal, and

• the maximum period of deferral of 15 years.

Concessional taxation of corporate income derived from certain patents.

Corporate income derived from Australian medical and biotechnology patents in income years starting on or after 1 July 2022 will be taxed at a concessional effective tax rate of 17%.

Currently, income the subject of the proposed patent box concession subject to the rate applicable to the taxpayer, 25% for businesses with aggregated turnover of less than $50 million, otherwise 30%.

2021 storms and floods — income tax exemption for qualifying grants

An income tax exemption will be provided for qualifying grants made to primary producers and small businesses affected by the storms and floods in Australia. Qualifying grants are Category D grants provided under the Disaster Recovery Funding Arrangements 2018, where those grants relate to the storms and floods in Australia that occurred due to rainfall events between 19 February 2021 and 31 March 2021.

These include small business recovery grants of up to $50,000 and primary producer recovery grants of up to $75,000. The grants will be made non-assessable non-exempt income for tax purposes.

Taxation of financial arrangements — hedging and foreign exchange deregulation apply for relevant transactions entered into on or after 1 July 2022.

Technical amendments will be made to the taxation of financial arrangements (TOFA) rules which will include facilitating access to hedging rules on a portfolio hedging basis.

Apprenticeship wage subsidy expanded.

The Boosting Apprenticeship Commencements wage subsidy will be expanded to support businesses and Group Training Organisations that take on new apprentices and trainees.

This measure will uncap the number of eligible places (currently capped at 100,000 places). The duration of the 50% wage subsidy will be increased to 12 months from the date an apprentice or trainee commences with their employer. The subsidy will now be available from 5 October 2020 to 31 March 2022 and businesses of any size can claim the wage subsidy for new apprentices or trainees who commence during this period. Eligible businesses will be reimbursed up to 50% of an apprentice or trainee's wages of up to $7,000 per quarter for 12 months.

Accessing income tax exemptions by not-for-profits

From 1 July 2023 non-charitable not-for-profits (NFPs) with active ABNs will be required to submit the information used to self-assess their eligibility for income tax exemptions in an online self-review form. This will be an annual requirement.

Currently non-charitable NFPs self-assess their eligibility for income tax exemptions, but there is no obligation to report to the ATO.

Junior minerals exploration incentive extended 4 more years to 30 June 2025.

Eligible companies can turn losses from exploration expenditure to tax credits. These can be distributed to investors (annual caps apply).

Extended powers for Administrative Appeals Tribunal (AAT) to pause or modify ATO debt recovery.

Small businesses will be able to apply to the AAT to pause or modify ATO debt recovery actions for debts being disputed in the AAT.

The AAT will be allowed to pause or modify any ATO debt recovery actions, such as garnishee notices and the recovery of general interest charges or related penalties, until the underlying dispute is resolved by the AAT. These new powers for the AAT will be available in respect of proceedings commenced on or after the date of assent of the legislation.

SUPERANNUATION

Work test for superannuation contributions to be abolished from 1 July 2022. (Non-concessional/salary sacraficed only)

Work Test – have worked more than 40 hours in less than 31 days in the financial year.

Individuals aged 67 to 74 will no longer be required to meet the work test when making or receiving non-concessional superannuation contributions or salary sacrificed contributions. These individuals will also be able to access the non-concessional bring-forward arrangement, subject to meeting the relevant eligibility criteria.

Access to concessional personal deductible contributions for individuals aged 67 to 74 will still be subject to meeting the work test.

Eligible age for downsizer contributions lowered to 60 years from 1 July 2022.

The eligibility age to make downsizer contributions into superannuation will be reduced from 65 to 60 years of age.

The downsizer contribution will allow individuals to make a one-off, post-tax contribution to their superannuation of up to $300,000 per person (or $600,000 per couple) from the proceeds of selling their home, provided that the home has been held for at least 10 years. Both members of a couple can contribute in respect of the same home, and contributions do not count towards non-concessional contribution caps.

Individuals with balances over the transfer balance cap ($1.7 million from 1 July 2021) are also able to make a downsizer contribution, however the downsizer amount will count towards that cap when savings are converted to the retirement phase.

The downsizer contribution is not a non-concessional contribution and there is no work test.

Maximum releasable amount under first home super saver scheme increased to $50,000.

The maximum amount of contributions that can be released from superannuation under the first home super saver scheme (FHSSS) will be increased from $30,000 to $50,000. The FHSSS applies to voluntary contributions made into superannuation on or after 1 July 2017. Voluntary contributions made from that date will count towards the total amount able to be released.

Four technical amendments backdated to 1 July 2018.

Central management and control safe harbour test extended for SMSFs expect the enactment of legislation to be prior to 1 July 2022.

Currently, an SMSF will remain an Australian superannuation fund where the members/trustees of the SMSF are overseas temporarily for a period not exceeding 2 years. The government has announced a proposal to extend this safe harbour test to 5 years.

Changes to the pension loans scheme

- A form of reverse mortgage
- Participants in the scheme will be allowed to access up to 2 lump sum advances in any 12-month period, up to a total value of 50% of the maximum annual rate of the age pension. (E.g., 50% of annual pension single is $12,385.)

- a "no negative equity guarantee" will be introduced so borrowers will not have to repay more than the market value of their property.

OTHER MEASURES

Excise relief for small distillers and brewers

From 1 July 2021, eligible brewers and distillers will be able to receive a full remission of any excise they pay, up to an annual cap of $350,000. Currently, eligible brewers and distillers are entitled to a refund of 60% of the excise they pay, up to an annual cap of $100,000.

Increased funding for aged care

A total of $17.7 billion in funding will be provided for aged care initiatives for e.g., home care and primary and other care in response to the Royal Commission on Aged Care Quality and Safety.

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