



# Federal budget | October 2020

On Tuesday, 6 October 2020, Treasurer Josh Frydenberg handed down the 2020-21 Federal Budget. He said the Budget was "all about jobs" (including creating new jobs and getting the unemployed back into work again) and getting the economy moving again. The Treasurer said "COVID-19 will see the deficit reach \$213.7 billion this year, falling to \$66.9 billion by 2023-24".

## PERSONAL TAXATION

### Personal tax cuts (Stage 2) brought forward to 1 July 2020; Stage 3 unchanged for 2024-25

The Government will bring forward the Stage 2 personal income tax cuts to 1 July 2020 (from 1 July 2022, as previously legislated in 2018).

From 1 July 2020,

- the top threshold of the 19% personal income tax bracket will increase from \$37,000 to \$45,000;
- the top threshold of the 32.5% tax bracket will increase from \$90,000 to \$120,000.

The new low income tax offset (maximum \$700) has also been brought forward to 2020-21, while the low and middle income tax offset (maximum \$1,080) has been retained for 2020-21.

### Targeted CGT exemption for "granny flat" arrangements from 1 July 2021

Under the measure, CGT will not apply to the creation, variation or termination of a granny flat arrangement providing accommodation where there is a formal written agreement in place. The Budget states that it will apply to arrangements that provide accommodation for "older Australians or those with a disability". There are no further details as to what constitutes "older" or "disability".

## BUSINESS TAXATION

### Small business tax concessions extended to businesses in \$10m-\$50m range

The Budget confirmed the Government's announcement on 2 October 2020 that a range of tax concessions currently available to small businesses (aggregated annual turnover under \$10 million) will be made available to medium sized businesses, ie

businesses with an aggregated annual turnover of \$10 million or more but less than \$50 million. The extension of these concessions to medium businesses will be delivered in 3 phases:

- **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 the 47% FBT on car parking and multiple work-related portable electronic devices, such as phones or laptops, provided to employees. (Note that an FBT exemption for retraining redeployed employees will also apply from 2 October 2020).
- **From 1 July 2021:**
  - eligible businesses will be able to access the simplified trading stock rules, remit PAYG instalments based on GDP adjusted notional tax, and settle excise duty and excise-equivalent customs duty monthly on eligible goods;
  - The time limit for the ATO to amend income tax assessments will be reduced from 4 to 2 years for eligible business for income years starting from 1 July 2021; and
  - the Commissioner's power to create a simplified accounting method determination for GST purposes will be expanded to apply to businesses below the \$50m aggregated annual turnover threshold. The eligibility turnover thresholds for other small business tax concessions will remain at their current levels.

### Outright deduction of capital assets until 30 June 2022 for most businesses

Businesses with aggregated annual turnover of **less than \$5 billion** will be enabled to deduct the full cost of eligible capital assets acquired from 7:30pm AEDT on 6 October 2020 and first used or installed by 30 June 2022. Full expensing in the year of first use will apply to new depreciable assets and the cost of improvements to existing eligible assets.

## BUDGET 2020 SUMMARY

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For small and medium sized businesses (ie those with aggregated annual turnover of less than \$50 million), full expensing will also apply to second-hand assets.

Businesses with aggregated annual turnover between \$50 million and \$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 current instant asset write-off rules. Businesses that hold assets eligible for the \$150,000 instant asset write-off will have an extra 6 months, ie until 30 June 2021, to first use or install such assets. Small businesses (with aggregated annual turnover of less than \$10 million) can deduct the balance of their simplified depreciation pool at the end of the income year while full expensing applies.

A car limit applies to the cost of passenger vehicles (except a motorcycle or similar vehicle) designed to carry a load less than one tonne and fewer than nine passengers. The instant asset write-off is limited to the business portion of the car limit for the relevant income tax year. The car limit is \$59,136 for the 2020–21 income year.

### **Loss carry-back from 2019-20, 2020-21 and 2021-22 income years**

The Government will allow eligible companies 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.

Corporate tax entities with an aggregated turnover of less than \$5 billion will be able to apply tax losses against taxed profits in a previous year, generating a refundable tax offset in the year in which the loss is made.

The tax refund will be limited by requiring that the amount carried back to not exceed the earlier taxed profits and to not generate a franking account deficit. The tax refund will be available on election by eligible businesses when they lodge their 2020-21 and 2021-22 tax returns

### **Corporate residency test to be clarified from 2 October 2020**

The Government will make technical amendments to clarify the corporate 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". This test will be satisfied where both the company's core commercial activities are undertaken in Australia and its central management and control is in Australia.

### **FBT exemption for retraining redeployed employees from 2 October 2020**

The Budget confirmed that it will provide an FBT exemption for 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.

Currently, FBT is payable if an employer provides training to its employees that is not sufficiently connected to their current employment. For example, a business that retrains their sales assistant in web design to redeploy them to an online marketing role in the business can be liable for FBT. By removing FBT, the Treasurer said employers will be encouraged to retain redundant employees to prepare them for their next career.

The FBT exemption will not extend to retraining acquired by way of a salary packaging arrangement or training provided through Commonwealth supported places at universities, which already receive a benefit, or extend to repayments towards Commonwealth student loans.

### **FBT record-keeping - reducing 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.

Currently, the FBT legislation prescribes the form that certain records must take and forces employers, and in some cases employees, to create additional records in order to comply with FBT obligations. This measure will apply from the start of the first FBT year (1 April) after the date the enabling legislation receives assent.

### **R&D Tax Incentive changes announced and start date deferred**

The Government has announced a number of changes to the R&D tax offset measures contained in the Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019 and deferred the start date of those measures to income years starting on or after 1 July 2021. The eligible R&D threshold has proposed to increase to \$150m from \$100m in the bill.

The changes to the Bill measures announced in the Budget are detailed below.

- **Refundable tax offset increased** For companies with an aggregated annual turnover of less than \$20m, the refundable R&D tax offset will be set at 18.5% above the claimant's company tax rate (compared to 13.5% in the Bill).

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- **Annual cap on cash refunds abandoned**  
The Government will not proceed with the measure proposed in the Bill to impose an annual cap on R&D tax offset refunds of \$4m (with any remaining offset amounts being treated as non-refundable carry forward tax offsets). The Bill provided an exclusion from the annual cap for eligible expenditure on clinical trials registered as R&D activities. This carve out acknowledged opportunities for growth in the medical technology, biotechnology and pharmaceutical sectors.
- **R&D intensity bands reduced** The Bill makes provision for R&D premium offsets (above the company's tax rate) tied to a company's incremental R&D intensity (notional deductions/total expenses). For companies with turnover of \$20m or more there is two-tier intensity test: -
  - Company tax rate + 8.5% - up to 2% of R&D intensity
  - Company tax rate + 16.5% - over 2% of R&D intensity

### JobMaker Hiring Credit

The Budget announced that the Government will provide \$4 billion over 3 years from 2020-21 to accelerate employment growth by supporting organisations to take on additional employees through a 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.

New jobs created until 6 October 2021 will attract the JobMaker Hiring Credit for up to 12 months from the date the new position is created.

**Employer eligibility** Employers are eligible to receive the JobMaker Hiring Credit if they:

- have an ABN;
- are up to date with tax lodgment obligations;
- are registered for PAYG withholding;
- are reporting through Single Touch Payroll (STP);
- meet the "additionality criteria";
- are claiming in respect of an eligible employee; and
- have kept adequate records of the paid hours worked by the employee they are claiming the hiring credit in respect of.

### Supporting small business and responsible lending

Supporting small business and responsible lending  
The Budget confirmed that the Government will implement reforms to support consumers and businesses affected by COVID19 to facilitate Australia's economic recovery. The reforms are designed to reduce regulatory burden to ensure a timely flow of credit and resolution for distressed business.

These include:

- introducing a new process to enable eligible incorporated small businesses in financial distress to restructure their own affairs;
- simplifying the liquidation process for eligible incorporated small businesses;
- support for the insolvency sector;
- introducing a standard licensing regime for debt management firms who represent consumers in dispute resolution processes with credit providers;
- removing duplication between the responsible lending obligations contained in the National Consumer Credit Protection Act 2009 and the Australian Prudential Regulation Authority (APRA) standards and guidance for authorised deposit-taking institutions (ADIs) and establishing a similar new credit framework for non-ADIs;
- enhancing the regulation of Small Amount Credit Contracts and Consumer Leases to ensure that the most vulnerable consumers are protected.

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## SUPERANNUATION

### **Super reforms: accounts to be stapled to members; best financial interests duty; other from 1 July 2021**

The Your Future, Your Super package, which will seek to reduce the number of duplicate accounts held by employees as a result of changes in employment and prevent new members joining underperforming funds, includes:

- **YourSuper portal** - 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;
- **stapled accounts** - an existing superannuation account will be "stapled" to a member to avoid the creation of a new account when that person changes their employment. 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;
- **MySuper benchmarking** - from July 2021, APRA will conduct benchmarking tests on the net investment performance of MySuper products, with products that have underperformed over two consecutive annual tests prohibited from receiving new members until a further annual test that shows they are no longer underperforming.
- **Non-MySuper accumulation products** where the decisions of the trustee determine member outcomes will be added from 1 July 2022. The funding for this initiative will be met through an increase in levies on regulated financial institutions; and
- **super trustees** - best financial interests duty - to improve transparency and accountability of super funds, the Government will legislate to compel super trustees to also act in the best "financial" interests of their members.

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## OTHER MEASURES

### **Wage subsidy for new apprentices**

The Government will provide a capped 50% wage subsidy to businesses who take on a new Australian apprentice from 5 October 2020 to 30 September 2021.

It will be available to employers of any size or industry, Australia-wide – regardless of geographic location or occupation.

There are 2 important caps:

- it is limited to 100,000 new apprentices or trainees in total;
- The 50% subsidy will be limited to \$7,000 per quarter (ie \$28,000 per annum).

### **First Home Loan Deposit Scheme: additional 10,000 places**

The Government will allocate an additional 10,000 places for first home buyers under the existing First Home Loan Deposit Scheme.

Under the existing Scheme, eligible first home buyers can obtain a loan to build a new home or purchase a newly built home with a deposit of as little as 5%. The Scheme provides a Government-backed guarantee equals to the difference between the deposit (of at least 5%) and 20% of the purchase price. Applications can be made as part of the standard home loan application process through participating lenders.

The Treasurer said eligible first home buyers will also be able to take advantage of the Federal Government's First Home Super Saver Scheme and HomeBuilder. First home buyers may also be eligible for State and Territory grants and concessions.

### **\$250 cash payments for income support recipients**

The Government will pay two \$250 economic support payments for eligible income support recipients and concession card holders. The payments will be made from November 2020 and early 2021.

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

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