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McKinley Plowman Budget Update 2020-21

7 October 2020

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Introduction

Welcome to the 2020/21 McKinley Plowman Federal Budget Update! In a year filled with uncertainty, turmoil, crisis, and economic downturn, the Morrison Government's Budget was always poised to be one filled with recovery measures to get the Australian economy back on track – looking at both the short- and long-term.

While the majority of the Budget items are subject to the passage of legislation, the road out of COVID-19 appears to be lined with cash. Individuals can look forward to things like personal income tax cuts and economic support payments; while some businesses may see improved cash flow through measures like loss carry-backs and the extension of some generous SME tax concessions.

While the summary below is by no means the be-all-and-end-all of the 2020/21 Budget, we feel that it provides a good mix of information around important items concerning Individuals, Superannuation and Businesses – something for everyone!

As the country moves forward with the economic recovery process, there are many critical considerations that need to be made in the areas of accounting, bookkeeping, superannuation and business development. At McKinley Plowman, we are dedicated to helping our clients navigate the complex tax and accounting landscape, now and into the future. If you need any assistance with the implementation of the Government's Budget measures, or would like to know more about how the 2020/21 Budget could impact you and your business, get in touch with us today via the contact information below:

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Individuals

Personal Income Tax Cuts

Stage 2 of the planned income tax cuts were due to come into effect from 1 July 2022, however the Government has, predictably, brought this forward to 1 July 2020 (subject to legislation). The plans to bring these tax cuts forward has been met with some controversy, with some in Parliament believing that it "rewards higher income earners and the money could be better spent elsewhere". However, the Government's argument is that it will increase GDP by around $3.5bn in 2020/21 and $9bn in 2021/22; as well as create an extra 50,000 jobs by the end of the 2022 financial year. The decision made in the senate will be the major factor in whether or not this happens.

Stage 3 of the Personal Income Tax Plan remains scheduled for 2024/25. Should the plan to bring forward the personal income tax plan pass the legislative process, the top threshold of the 19% 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; and the low-income tax offset will increase from $445 to $700.

The Low and Middle Income Tax Offset (LMITO), which provides a reduction in tax of up to $1,080 for individuals with a taxable income of up to $126,000, was initially scheduled to be removed upon the introduction of Stage 2 reforms, however despite the plans to bring these in earlier, the LMITO will be retained for 2020/21.

A summary of the Personal Income Tax Plan is as follows:

	Tax Thresholds		
Tax rate	**Current**	**From 1 July 2020**	**From 1 July 2024**
0%	$0 - $18,200	$0 - $18,200	$0 - $18,200
19%	$18,201 - $37,000	$18,201 - **$45,000**	$18,201 - $45,000
30%			**$45,001 - $200,000**
32.5%	$37,001 - $90,000	**$45,001 - $120,000**	
37%	$90,001 - $180,000	$120,001 - $180,000	-
45%	>$180,000	>$180,000	>$200,000
LITO	Up to $445	**Up to $700**	Up to $700

$250 economic support payments

For eligible recipients of the following payments and health care card holders, the Government will make two additional economic support payments of $250 each.

- Age Pension
- Disability Support Pension
- Carer Payment
- Family Tax Benefit, including Double Orphan Pension (not in receipt of a primary income support payment)
- 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
- Eligible Veterans' Affairs payment recipients and concession card holders.

The payments are expected to be made between November 2020 and into early 2021, are tax-exempt, and will not be counted as income support for the purposes of any income support payment.

Removing Capital Gains Tax (CGT) from granny flat arrangements

Current legislation dictates that Capital Gains Tax (CGT) may apply in situations where formal granny flat arrangements are entered into, for instance between an individual and their elderly parent. Before the Budget was officially announced, a measure was introduced whereby CGT will not apply to the creation, variation or termination of a formal, written granny flat arrangement where it provides accommodation for elderly Australians or those with disabilities. Note that this exemption only applies to family situations or other personal connections, and CGT will still apply for commercial rental agreements.

This measure will come into effect on 1 July 2021, subject to the passage of relevant legislation.

First Home Loan Deposit Scheme – 10,000 Additional Places

From 6 October 2020 to 30 June 2021, an additional 10,000 places will be available within the First Home Loan Deposit Scheme, supporting first home buyers in purchasing a new (or newly-built) home. Under this scheme, eligible buyers are able to purchase a home with as little as 5% deposit (as opposed to the usual 20%) **without** mortgage insurance. At the time of writing, there are 27 lenders participating and offering places in the scheme.

Aged Care Support

Helping the Elderly Stay at Home: $1.6 billion has been provided by the Government over four years (from 2020/21) to implement an additional 23,000 home care packages across all package levels – with a view to helping elderly Australians maintain some independence and stay at home. The services available in these packs include personal care, nursing services, allied health, cleaning, home maintenance, assistive technology, transport, and social support services. The number of home care packages provided under the scheme has grown from just over 60,000 in 2013 to over 185,000 in 2021.

Aged Care Industry Monitoring and Support: Infrastructure in the aged care industry, including a new "Serious Incident Response Scheme" and monitoring services, will be brought in with $400 million worth of funding through the Budget. This is a welcome inclusion in this year's Budget, and not particularly surprising given the recent Royal Commission into Aged Care Quality and Safety.

Superannuation

Superannuation Accounts 'Stapled' to an Individual

From 1 July 2021, superannuation funds will be "stapled" to individuals to prevent the duplication of super fund accounts when starting a new job. Under the new guidelines, employers will pay superannuation contributions to their new employee's existing fund, if they do not nominate an account when they commence their employment. Employers will be able to obtain the relevant superannuation fund information about the employee from the ATO, via the ATO's online services. Should an employee not have an existing fund, and does not make a decision regarding a fund, the employer will pay into their nominated default fund.

Through the automated provision of superannuation fund information to employers, the Government expects that the process of selecting a fund will be more streamlined for both the employer and the employee, particularly with the continued development of payroll software.

Accountability of Under-Performing Funds

From July 2021, the Australian Prudential Regulation Authority (APRA) will be conducting benchmarking tests regarding the net performance of MySuper products. Products that are found by APRA to have underperformed over two consecutive annual tests will not be allowed to receive any new members until a further annual test demonstrates that they are no longer underperforming.

If a fund is underperforming, it will be required to inform its members of such by 1 October 2021 and provide them with information about the YourSuper comparison tool (more on that next). On YourSuper, underperforming funds will be listed as underperforming until such time as their performance improves.

APRA will broaden their testing to superannuation products outside of the MySuper list from 1 July 2022.

Performance Transparency

Developed and administered by the ATO, The YourSuper interactive tool will enable individuals to compare simple super products (under the MySuper list), ranked by fees and investment returns. Links will also be provided to other MySuper products and display an individual's current super accounts if they have more than one. As above, this tool will be available from July 2021, in line with the commencement of APRA's benchmarking tests.

Trustee Accountability

From 1 July 2021, there will be a more stringent and clear set of obligations to which superannuation trustees are required to adhere. This includes a requirement to comply with a new duty to act in the best financial interests of the member/s; a requirement to demonstrate a reasonable basis supporting the trustee's actions being consistent with the member's best interests; and a requirement for trustees to provide members with key information regarding how they manage and spend their money in advance of the Annual Member's Meetings.

Business

JobMaker Hiring Credit

As part of the 2020/21 Budget, the Government has announced that eligible employers will receive the JobMaker Hiring Credit for each addition job they create for an eligible employee over the next 12 months (starting from 7 October 2020).

Eligibility: In order to be eligible, the employer must be able to demonstrate that the addition of any new employees has increased overall employee headcount and payroll. Employees must also work for a minimum of 20 hours per week (average per quarter), and received the JobSeeker Payment, Youth Allowance or Parenting Payment for at least one month out of the three months prior to being hired.

The payment for eligible employees aged 16 to 29 years is $200 per week; and for those aged 30 to 35 years the payment will be $100 per week (paid quarterly in arrears). The payment will be available for up to 12 months from the date of employment and is capped at $10,400 per additional new position created.

Immediate Deductions for Investment in Capital Assets

In order to incentivise businesses to invest, the Government has introduced a Budget measure that allows businesses with an aggregated annual turnover of less than $5bn to claim a full deduction on the cost of new depreciable business assets in the first year of use. This also applies to the cost of improvements made to existing eligible assets. Under this measure, businesses will be able to claim a full deduction in the first 12 months of, rather than claiming a deduction over the life of the asset as has been the procedure in the past.

Unlike the $150,000 instant asset write-off measure brought in under the COVID-19 Stimulus efforts, this Budget measure does not feature a cap on the cost of the asset and will be available to more businesses than the $150,000 instant asset write-off.

Second-Hand Assets

Businesses with an aggregated annual turnover of less than $50 million can fully expense the cost of second-hand assets. For those with turnover between $50 million and $500 million, they can still deduct the full cost of eligible second-hand assets within the existing enhanced $150,000 asset write-off framework. They also have an extra six months (until 30 June 2021) to first use or install those assets.

Small Business Pooling

For those small business entities (aggregated annual turnover <$10 million) that use the simplified depreciation rules, they are able to deduct the balance of their simplified depreciation pool at the end of the financial year, while full expensing applies. Note that small businesses who opted out of the simplified depreciation rules will still be unable to re-enter the regime for the existing five-year exclusion period.

Ability for Companies to Carry-Back Losses

Companies with an aggregated turnover of less than $5 billion will be able to carry back losses from the 2019-20, 2020-21 and 2021-22 income years to offset previously taxed profits in the 2018-19, 2019-20 and 2020-21 income years.

As part of this measure, a refundable tax offset may be generated for the year in which a loss is made, as losses can be applied against taxed profits. The amount carried back has to be less than the earlier taxed profits, as such the refund will be limited by the business' tax liabilities in the profit years. Eligible businesses will be able to claim their refund upon lodging their 2020/21 and 2021/22 tax returns.

Under the current rules, companies are required to carry forward losses to offset profits in future years, and companies that do not wish to participate under the new measure are still able to carry forward as normal. The measure regarding the full expensing of capital asset investment (detailed earlier) may generate significant tax losses for some businesses, and using the new carry-back rule they may be able to generate cash refunds.

R&D Tax Concessions Injection and Simplification

Poised to take effect from 1 July 2021, the Government has shaken up its Research & Development (R&D) by funnelling an extra $2 billion through the R&D Tax Incentive. For eligible R&D activities (for the first $100 million of eligible expenditure), the R&D Tax Incentive provides a 43.5% refundable offset for eligible companies with aggregated annual turnover less than $20m; and a 38.5% non-refundable tax offset for all other eligible companies.

Companies Under $20m Turnover

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 (up from the previously-announced 13.5 percentage points). The previously announced annual $4 million cap on cash refunds for R&D claimants will not proceed.

Companies over $20m turnover

For companies with an aggregated annual turnover of more than $20 million, the previously announced R&D intensity premium will now apply across two tiers (as opposed to the original three). Note the intensity premium will tie the rates of the non-refundable R&D tax offset to the incremental intensity of R&D expenditure as a proportion of total expenditure for the year. The marginal R&D premium will be the company's tax rate plus:

- 8.5 percentage points above the claimant's company tax rate for R&D expenditure between 0 per cent and 2 per cent R&D intensity for larger companies
- 16.5 percentage points above the claimant's company tax rate for R&D expenditure above 2 per cent R&D intensity for larger companies (the previously announced intensity premiums varied from 4.5 to 12.5 percentage points).

The R&D expenditure threshold - the maximum amount of R&D expenditure eligible for concessional R&D tax offsets - will be increased as intended from $100 million to $150 million per annum.

Access to Tax Concessions Extended to Businesses up to $50m

There are already some very generous small-medium business tax concessions that have been around for a little while. However, in a pre-Budget announcement, the Government outlined plans to increase the amount of businesses who are able to take advantage of these, by raising the maximum aggregated turnover to $50 million.

The expanded concessions will be rolled out in three phases:

From 1 July 2020

Immediate deduction for certain start-up expenses: As businesses start up, things like legal, professional and accounting advice is often required. Eligible new businesses can immediately deduct the expenses for these services, as well as amounts paid to the Government for things like setting up business entities.

Immediate deduction for prepaid expenditure: Eligible businesses can choose to claim an immediate deduction for prepaid expenses where the payment is for a period of service which is 12 months or less and ends in the next income year.

From 1 April 2021

FBT cark parking exemption: For certain car parking benefits provided to employees, eligible employers will be exempt from Fringe Benefits Tax (FBT).

FBT exemption on portable electronic devices: Generally, employers are only allowed to apply for an FBT exemption each FBT year for one portable electronic device (e.g. laptop, mobile phone) per employee. Under the new measure from April 1 2021, eligible employers will be able to provide more than one device and apply an FBT exemption.

From 1 July 2021

Simplified trading stock: Eligible businesses can choose not to conduct a stocktake if there is a difference of less than $5,000 between the opening value of trading stock and a reasonable estimate of the closing value of trading stock at the end of the income year.

PAYG instalments based on GDP adjustment amount: Eligible businesses can pay an ATO calculated PAYG instalment amount based on the last reported income (i.e., as reported in the most recent tax return) adjusted by a GDP adjustment factor. This removes the need to calculate the PAYG instalment each period based on a percentage of instalment income.

Settle excise duty and excise-equivalent customs duty monthly: On eligible goods, this concession enables eligible businesses to apply to defer settlement of their excise duty and excise equivalent customs duty from a weekly to a monthly reporting cycle.

Two-year amendment period: Eligible businesses will have a two-year amendment period apply to income tax assessments, excluding entities that have significant international tax dealings or particularly complex affairs.

Simplified accounting methods: The Commissioner of Taxation's power to create a simplified accounting method determination for GST purposes will be expanded to apply to eligible businesses below the $50 million aggregated annual turnover threshold.

The eligibility turnover thresholds for other small business tax concessions will remain at their current levels.

FBT Exemption for Retraining and Reskilling Workers

Currently, FBT may be triggered if an employer provides training to an employee that is outside the scope of their current job. As of 2 October 2020, an FBT exemption will be provided for employers who train and re-skill employees in order to redeploy them to a different role within the business, or for a role with a different employer.

Repayments toward Commonwealth student loans, retraining acquired through salary packaging, or training provided through Commonwealth-supported places at universities **will not** be eligible for the FBT exemption.

Simplification of FBT Record-Keeping

In the Budget, the Government has proposed a measure that would allow the Tax Commissioner to simplify record-keeping requirements for completing FBT returns, by enabling employers to rely on existing internal records as opposed to employee declarations and other prescribed records. This is, of course, subject to legislation and will come into effect for the first FBT year (1 April) following Royal Assent of the relevant piece of legislation.

100,000 new apprenticeships

From 5 October 2020, eligible businesses and Group Training Organisations that take on a new Australian apprentice may receive a 50% wage subsidy. This subsidy is available irrespective of how big the business is, what industry they operate in, where they operate, and the occupation in which the apprentice is employed. There is no set date for this scheme to end, rather it will expire upon reaching the 100,000-apprentice cap.

Under the conditions of the subsidy, employers will be able to claim the subsidy for new or recommencing trainees or apprentices for the period up to 30 September 2021. In order to be eligible, a business must engage an Australian apprentice between 5 October 2020 and 30 September 2021, and the apprentice must be undertaking a Certificate II or higher qualification, and their training contract must be formally approved by the relevant state training authority.

Specific regional COVID-19 funding measures

Just over $552 million has been committed by the Government for a four-year period starting 2020/21, with a view to assisting regional Australia recover from the impacts of COVID-19 and recent natural disasters (e.g. bushfires, floods). Some of these measures include:

- $207.7 million over five years from 2020-21 for round 5 of the Building Better Regions Fund;
- $100 million over two years from 2020-21 to facilitate Regional Recovery Partnerships with states, territories and local governments in 10 priority investment regions;
- $51 million over two years from 2020-21 to assist regions heavily reliant on international tourism;
- $50.3 million over four years from 2020-21 to support the Rural Health Multidisciplinary Training program;
- $41 million over three years from 2020-21 to support R&D activities in regional areas;
- $30.3 million over two years from 2020-21 to extend Round One of the Regional Connectivity Program to improve access to digital technologies.

Other

$7.5bn Transport Infrastructure Injection – Western Australia

Transport infrastructure across the country has received an important injection of cash, to the tune of around $7.5bn. In WA, the following projects are ready to go and will benefit greatly from an investment of approximately $1.1bn:

- $88 million for the Reid Highway Interchange with West Swan Road;
- $70 million for the Roe Highway Widening and Abernethy Road Upgrade;

- $16 million to undertake sealing of priority sections of the Goldfields Highway between Wiluna and Meekatharra;
- $16 million to undertake upgrades on the Broome-Cape Leveque Road and associated community access roads.

Women's Economic Security

Over the next four years, $231 million will be provided through the Women's Economic Security Package in order to support the valuable role that women play in the economy. Some of these measures include:

- $90.3 million over three years to relax the Paid Parental Lave work test for births and adoptions that occur between 22 March 2020 and 31 March 2021 – allowing parents who have worked in 10 of the last 20 months preceding birth or adoption to qualify. This is an increase from the previous condition that they needed to have worked 10 in the last 13 months.
- $47.9 million in increased grants for the Women's Leadership and Development Program
- $35.9 million in increased grants for women-founded start-ups under the Boosting Female Founders initiative.
- $25.1 million to establish a Women in Science, Technology, Engineering and Mathematics (STEM) Industry Cadetship program. This program will aim to support 500 women working in STEM industries to complete an Advanced Diploma through a combination of study and work-integrated learning experiences.

Support for drought affected farmers and communities

Over $155 million will be invested in a package of support measures for farmers and their communities, including:

- $50 million to further drive the On-Farm Emergency Water Infrastructure Rebate Scheme
- $19.6 million to extend the drought function of the National Drought and North Queensland Flood Response and Recovery Agency for another year
- $86 million over four years through the Future Drought Fund to establish eight Drought Resilience and Adoption Hubs that support networks of researchers, farmers, agricultural business and community groups to enhance drought resilience practice, tools and technology (part of the $100 million pa Future Drought Fund).

2020-21 migration

Australia's economic growth has, at least in some capacity, relied on migration. The important role that migration plays has been addressed in this year's Budget with planning levels remaining at 160,000, and Family Stream places will increase from 47,732 to 77,300 on a one-off basis for the 2020/21 Migration Program year.

Employer Sponsored, Global Talent, Business Innovation and Investment Program visas will be prioritised within the Skilled Stream; and applicants for Partner visas will be subject to greater character checks and the sharing of personal information as part of their sponsorship application. Also, sponsors will be subjected to enforceable sponsorship obligations, and English language requirements will also be introduced.

Business innovation and investment

For those looking to migrate to Australia on the Business Innovation and Investment Program (BIIP), the Government will be raising visa application charges by 11.3%, and the program will place greater focus on "higher value investors, business owners and entrepreneurs".

Temporary visa holders working in key sectors

Agriculture

Temporary visa holders working in the agricultural sector will be able to continue working in Australia during COVID-19, as a result of temporary changes brought in by the Government. Working Holiday Maker (subclass 417 and 462) visa holders working in food processing or agriculture will be exempt from the six-month limitation one-employer rule; and Seasonal Worker Program and Pacific Labour Scheme workers, as well as other visa holders whose visas are expiring soon, may be eligible for an extension for up to 12 months (for approved employers).

Supermarkets, aged and disability care

Pre-COVID, Student visa holders (subclass 500) were limited to 40 hours of work per fortnight. Under the new measures, they will not be limited by this, provided they are employed in a supermarket (up to 30 April 2020); an aged care facility (Approved Provider or Commonwealth-funded service provider); or a disability care facility (with a registered National Disability Insurance Scheme provider).

Student visa holders studying relevant medical courses are also exempt from the 40 hour per fortnight work limit, provided they are supporting COVID-19 health efforts at the direction of the relevant health authority.

The Economy – A Quick Look

All of this investment and expenditure during such a difficult time for the Australian economy will undoubtedly have a significant impact on the country going forward. Here is a quick look at some of the key stats:

- As expected, there is a sizeable deficit to address - $213.7bn in 2020/21 to be exact. This is expected to reduce to $66.9bn by 2023/24.
- The Australian economy contracted 7% in the June quarter.
- Gross debt will increase to $872 billion this year (45% of GDP); and stabilise at approximately 55% in the medium term.
- Net debt will increase to $703 billion (36% of GDP) this year before rising to 44% in mid-2024. Beyond that, the expectation is that it will reduce back down to 40% of GDP in the medium term.
- GDP forecast: falling by 3.75% this calendar year; growing by 4.25% next calendar year.
- Unemployment forecast: peaking at 8% in the December quarter 2020; falling back to 6.5% in the June quarter 2022.