mckinley plowman
partners for life

McKinley Plowman 2021-22 Budget Update

Wednesday, 12 May 2021

Contents

Introduction

As the Morrison government hands down another Federal Budget, a mere 7 months since its last, what we're seeing is largely what we expected – more COVID-combatting items, an extension of key measures brought in last year, and a roadmap to economic recovery fuelled by investment and job creation. Steering the country through the pandemic is still the primary motivator behind much of the Budget, and there is a noticeable lack of long-term reform.

For business owners, there are some important inclusions in this year's Federal Budget, including targeted support for some of the industries impacted heavily by the COVID-19 pandemic, further commitment from the Government to the JobTrainer scheme, significant investment in digital infrastructure, skills and cybersecurity, immediate deductions for investment in capital assets,

Some important measures focusing more on the average Australian – including the extension of tax offsets for low- and middle-income earners, aged care reform, the rollout of the COVID vaccine, childcare subsidies, and mental health investment among others – may be viewed cynically given we're not far out from the next Federal election, but the importance of these inclusions in the Budget cannot be understated.

Note that these Budget measures are subject to the passage of legislation, though it appears likely at this stage that no issues with that should arise.

There is a lot to digest in this Budget – even outside of the measures we discuss below. As such there are many critical considerations that will need to be made in the areas of accounting, taxation, bookkeeping, superannuation, and finance. At MP+ we're dedicated to helping our clients make the most of the measures announced in the budget and look forward to the period of growth ahead. To see how we can help you, feel free to get in touch with us via the contact information below:

W: www.mckinleyplowman.com.au

E: clientcare@mckinleyplowman.com.au

P: (08) 9301 2200 (Joondalup)

P: (08) 9361 3300 (Victoria Park)

Businesses

Temporary Full Expensing Extension

Full expensing of depreciable assets was a measure first brought in for the 2020-21 Budget and has now been extended. Businesses with an aggregated turnover of less than $5 billion will be able to continue to expense the full cost of new depreciable assets for the business, as well as the cost of improvements to existing eligible assets, in the first year of use. This means businesses can deduct the full amount upfront as opposed to claiming over the life of the asset, regardless of its cost. The extension applies to assets first used or installed ready for use by 30 June 2023.

Note that improvements to land or buildings that are not treated as plant or as separate depreciating assets in their own right are excluded from this full expensing measure, and will still be claimed at the normal rates of 2.5% or 4% per annum. The car limit will continue to place a cap on the deductions that can be claimed for luxury cars.

From 1 July 2023, normal depreciation arrangements will apply (unless extended further in a future Budget) and the instant asset write-off threshold for small businesses with turnover of less than $10 million will revert back to $1,000.

Second-hand assets
Full expensing applies to second-hand assets for businesses with an aggregated turnover under $50 million.

Small business pooling
Small business entities (aggregated annual turnover <$10 million) using the simplified depreciation rules are able to deduct the full balance of their simplified depreciation pool at the end of the income year while full expensing applies. Provisions do exist where small businesses who voluntarily leave the simplified depreciation system are not able to re-enter for five years, however these are currently suspended and look set to remain so.

Opt-out rules
Taxpayers can choose not to apply the temporary full expensing rules to specific assets, although this choice is not currently available to small business entities that choose to apply the simplified depreciation rules for the relevant income year.

Extending the loss carry-back rules
The ability to carry back losses from the year ending 30 June 2023 as far back as the year ended 30 June 2019 has also been extended. As a result, the ability to fully expense an asset can have its maximum impact if its purchase puts a company into tax losses (and it has paid tax in one of the earlier relevant years).

Note that the ability to carry-back losses is only available to companies, which means those businesses not operating within a corporate structure will not be able to take advantage of this concession.

Abolition of the $450 super threshold
Under the current rules, employees need to earn at least $450 per month to be eligible to be paid the superannuation guarantee. Under the Budget's proposal, the threshold will be removed so all employees will be paid super guarantee, irrespective of how much they earn. It is estimated (by The *Retirement Income Review*) that once the threshold is removed, around 300,000 individuals will start to receive additional superannuation guarantee payments each month. This is welcome news for workers who are unable to work full time, however employers may find the additional administrative work to be a downside.

Medical and biotech 'patent box' tax regime
A new $206m 'patent box' tax regime will see income derived from Australian medical and biotechnology patents taxed at a concessional effective corporate tax rate of 17% from 1 July 2022.

Eligible patents will be those applied for after the Budget announcement, granted, and then developed domestically. That is, the patent box rewards companies to keep their IP within Australia. The preferential tax rate applies to income due to the patent and not from manufacturing, branding, or other attributes.

This is the first time that the patent box concept has been introduced in Australia, and the Government will follow the OECD's guidelines on patent boxes to ensure the patent box meets internationally accepted standards, and will consult with the industry on the design. If effective, this same concept may also be applied to the clean energy sector.

Expansion of small business digital support services

The Government has committed to further funding the Digital Solutions - Australian Small Business Advisory Services (ASBAS) Program to the tune of $12.7m, which provides small businesses with access to digital solutions advisers to work with them to expand their use of digital technology. Additionally, the program will pilot an offering for the not-for-profit sector.

In order to drive electronic invoicing (e-invoicing) within the business community, $15.3m has been dedicated which will assist in working alongside payment providers, conduct supply chain pilots, and deliver education campaigns (E-invoicing will be mandatory for Government by July 2022).

Investments in new technologies to reduce emissions

The Government is looking to incentivise private investment in technologies to reduce emissions and will provide $1.6 billion over ten years from 2021-22 (including $761.9 million over four years from 2021-22) to that end. Funding includes:

- Creation of a technology co-investment facility that supports the development of regional hydrogen hubs, carbon capture, use and storage technologies, very low cost soil carbon measurement and new agricultural feed technologies, a high-integrity carbon offset scheme in the Indo-Pacific region, and support the implementation of the Technology Investment Roadmap and Low Emissions Technology Statements
- Establish the below baseline crediting mechanism recommended by the King Review and help realise abatement opportunities in large industrial facilities
- Support for Australian businesses and supply chains to reduce their energy costs and improve productivity through the uptake of more energy efficient industrial equipment and business practices
- Early stage seed capital financing function within the Australian Renewable Energy Agency (ARENA).

Student visa holders working in key sectors

Student visa holders in key sectors will temporarily be able to work more than 40 hours per fortnight.

- *Tourism and hospitality* - student visa holders will be able to work more than 40 hours per fortnight, as long as they are employed in the tourism or hospitality sectors.
- *Agricultural sector* - From 5 January 2021, work limitation conditions placed on student visa holders were temporarily lifted to allow these visa holders to work more than 40 hours per fortnight if they are employed in the agriculture sector. The Government has removed the requirement for applicants for the Temporary Activity visa (subclass 408) to demonstrate their attempts to depart Australia if they intend to undertake agricultural work. The period in which a temporary visa holder can apply for the Temporary Activity visa has also been extended from 28 days prior to visa expiry to 90 days prior to visa expiry.

Extending supports for the arts sector

The Government will provide $222.9 million over two years from 2020-21 to continue to support the arts sector through the impacts of COVID-19. Funding includes:

- Supporting events and productions by expanding the Restart Investment to Sustain and Expand (RISE) fund.

- Extension of the Temporary Interruption Fund for 2021-22.
- A support program for independent cinemas.

Heavy road vehicle charge increase

The Heavy Vehicle Road User Charge currently sits at 25.8 cents per litre, and will increase to 26.4 cents per litre from 1 July 2021.

Individuals

Extension of Low- and Middle-Income Tax Offset (LMITO)

The extension of LMITO for another income year will deliver tax cuts for lower- and middle-income families and indicates that the Government is keen for taxpayers to increase spending habits and further stimulate the economy. Furthermore, with a Federal election on the horizon, any perceived "increase" to individuals' tax would not have been particularly beneficial for a Government seeking re-election. Once benefits such as LMITO are put in place, taking them away isn't an easy feat.

The LMITO provides a reduction in tax of up to $1,080 for individuals with a taxable income of up to $126,000. Below is a table which outlines the offsets based on taxable income brackets. The tax offset is triggered when a taxpayer lodges their tax return.

Taxable income	Offset
$37,000 or less	$255
Between $37,001 and $48,000	$255 plus 7.5 cents for every dollar above $37,000, up to a maximum of $1,080
Between $48,001 and $90,000	$1,080
Between $90,001 and $126,000	$1,080 minus 3 cents for every dollar of the amount above $90,000

Residency Tests Update

Individual tax residency rules and tests have previously created uncertainty and occasionally been subject to legal action. As part of the 2021/22 Budget, the Federal Government announced that the individual tax residency rules will be replaced with a simpler, more modern framework.

The primary test will be a simple 'bright line' test - a person will be considered an Australian resident for tax purposes if they are physically present in Australia for 183 days or more in any income year. Those who do not meet the primary test will be subject to secondary tests that combine of physical presence considerations as well as measurable, objective criteria.

This change is set to come into effect from the first income year after royal assent to the legislation, but given its complex nature and the previous interpretive issues around residency status, a long and detailed consultation period concerning this proposal may be in order and we may not see it come into effect for some time

It also remains to be seen if there will be some changes to the Working Holiday Maker (backpacker) legislation as a result of this inclusion. There is no suggestion in the Budget papers that this will be the case. However, working holiday makers will often be considered residents for tax purposes under this new definition.

Medicare levy low income threshold

The Government will increase the Medicare levy low-income thresholds for singles, families, and seniors and pensioners from 1 July 2020 to account for recent movements in the CPI so that low-income taxpayers generally continue to be exempt from paying the Medicare levy.

	2019-20	2020-21
Singles	$22,801	$23,226
Family threshold	$38,474	$39,167
Single seniors and pensioners	$36,056	$36,705
Family threshold for seniors and pensioners	$50,191	$51,094

For each dependent child or student, the family income thresholds increase by a further $3,597 instead of the previous amount of $3,533.

Childcare subsidy increase for families with multiple children under 5 in childcare

Research has shown that mothers lose 80%, 90% and sometimes even 100% of their take-home pay form working a fourth or fifth day after childcare costs, subsidy clawback, and tax & benefit changes are applied. From 1 July 2022, the Government will increase childcare subsidies available to families with more than one child aged five and under in childcare and remove the $10,560 cap on the Childcare Subsidy.

For those families with more than one child in childcare, the level of subsidy received will increase by 30% to a maximum subsidy of 95% of fees paid for their second and subsequent children (tapered by income and hours of care). Under the current system, the maximum childcare subsidy payable is 85% of childcare fees and it applies at the same rate per child, regardless of how many children a family may have in care.

Underwriting home ownership

In order to assist Australians to buy a home, the Federal Government has announced new and expanded programs.

Family Home Guarantee

Taking inspiration from the First Home Loan Deposit Scheme (FHLDS), the Government has announced the introduction of the Family Home Guarantee. This will open up spaces for 10,000 single parents with dependants to enable them to access a home loan with a deposit as low as 2%. Similar to the FHLDS, the program will guarantee the additional 18% normally required for a deposit without lenders mortgage insurance.

The Family Home Guarantee is aimed at single parents with dependants, *regardless* of whether that single parent is a first home buyer or previous owner-occupier. Applicants must be Australian citizens, at least 18 years of age and have an annual taxable income of no more than $125,000.

FHLDS – Building a Property

The First Home Loan Deposit Scheme will be extended by another 10,000 places from 1 July 2021 to 30 June 2022. Eligible first home buyers can build a new home with a deposit of as little as 5% (lenders criteria apply), with the Government guaranteeing up to 15% of the loan so that lenders mortgage insurance won't be necessary. Currently, there are 27 participating lenders involved in the scheme.

Under the scheme, first home buyers can build or purchase a new home, including newly-constructed dwellings, off-the-plan dwellings, house and land packages, land and a separate contract to build a new home, and can be used in conjunction with other schemes and concessions for first home buyers, for instance the stamp duty rebate.

First home saver scheme cap increase

The First Home Super Saver Scheme (FHSSS) allows potential first home buyers to save money for their first home inside their superannuation fund, enabling them to save faster by accessing the concessional tax treatment of superannuation. Eligible participants can make voluntary concessional (before-tax) and voluntary non-concessional (after-tax) contributions into their super fund and then apply to release those funds. Under the scheme in its current form, participants can release up to $15,000 of the voluntary contributions (and earnings) they have made in a financial year up to a total of $30,000 across all years, however in this latest Budget, the Government has announced that the current maximum releasable amount of $30,000 will increase to $50,000.

The voluntary contributions made to superannuation are assessed under the applicable contribution caps; there is no separate cap for these amounts. Amounts withdrawn under the scheme will be taxed at marginal rates less 30% offset, and non-concessional contributions made to the FHSSS are not taxed.

To be eligible for the FHSSS, applicants must be 18 years of age or over, have never owned property in Australia, and have not previously applied to release superannuation amounts under the scheme. Eligibility is assessed on an **individual** basis. This means that couples, siblings or friends can each access their own eligible FHSSS contributions to purchase the same property, which may unlock the door for some to purchase a property that would otherwise be out of their price range, or put down a more substantial deposit.

JobTrainer extended

The Government has committed an additional $500 million to extend the JobTrainer scheme by a further 163,000 places and extend the program until 31 December 2022. JobTrainer is matched by state and territory governments and provides job seekers, school leavers and young people access to free or low-fee training places in areas of skills shortages. Check out the MP+ article on JobTrainer here.

Superannuation

Work test repealed for voluntary superannuation contributions

Under the provisions announced in the Budget, individuals aged 67 to 74 years will be able to make or receive non-concessional or salary sacrifice superannuation contributions without meeting the work test. The contributions are subject to existing contribution caps and include contributions under the bring-forward rule.

Currently, the 'work test' requires individuals aged 67 to 74 years to work at least 40 hours over a 30 day period in a financial year to be able to make voluntary contributions (both concessional and non-concessional) to their superannuation, or receive contributions from their spouse. Personal concessional contributions will remain subject to the 'work test' for those aged between 67-74.

Expanded access to 'downsizer' contributions from sale of family home

When the Government passed legislation in December 2017 to allow individuals aged 65 or over to contribute the proceeds of the sale of their family home into super (up to $300,000), the aim was to ease pressure on housing affordability and ensure more Australians are sufficiently superannuated upon retirement. As a result of the announcement in this Budget, the eligibility age to access downsizer contributions will decrease from 65 years of age to 60.

These contributions are excluded from the existing age test, work test and the $1.7 million transfer balance threshold (but will not be exempt from your transfer balance cap).

Both members of a couple can take advantage of the concession for the same home. That is, if a couple have joint ownership of a property and meet the other criteria, both people can contribute up to $300,000 ($600,000 per couple).

Downsizer contributions apply to sales of a principal residence owned for the past ten or more years.

Sale proceeds contributed to superannuation under this measure will count towards the Age Pension assets test. Read more about the downsizer contributions here.

Other Important Budget Items

Apprenticeship scheme uncapped

Boosting Apprenticeship Commencements provides a 50% wage subsidy to employers and Group Training Organisations to take on new apprentices and trainees. The measure will uncap the number of eligible places and increase the duration of the 50% wage subsidy to 12 months from the date an apprentice or trainee commences with their employer.

From 5 October 2020 to 31 March 2022, businesses of any size can claim the Boosting Apprenticeship Commencements 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.

Digital skills training

Further to the ASBAS measures detailed earlier, the Government has committed $100m to its Digital Economy Strategy package to support digital skills development including:

- *Digital Skills Cadetship Trials* – working with industry, the Government will trial 4- to 6-month cadetships for digital careers comprising formal training with on-the-job learning.
- *Expansion of Cyber Security Skills Partnership Innovation Fund* – Additional funding for education providers that improve the quality or availability of cyber security professionals in Australia.
- *Next Generation Graduates Programs – AI & next gen technologies* – a competitive national scholarship program cofounded with universities and industry:
    - the Next Generation Artificial Intelligence Graduates Program to attract and train up to 234 home-grown, job-ready AI specialists through competitive national scholarships.
    - the Next Generation Emerging Technology Graduates Program to attract and train up to an additional 234 home-grown, job-ready specialists in other emerging technologies, such as robotics, cyber security, quantum computing, blockchain and data through competitive national scholarships.

$500m on MyGov and My Health Record

Now that MyGov is the primary access point for Government services, the online portal will be overhauled and upgraded. My Health Record is also on the updates list - adding support for COVID-19 testing and vaccinations, connecting Residential Aged Care Facilities, and connecting specialists in private practice and delivering improved telehealth, emerging virtual healthcare initiatives and digitised support across all stages of healthcare. Note that technical rollouts aren't something that the ATO typically manage to perform error-free, as we explored in a recent article.

COVID-19 vaccine response

The Government has committed $1.9 billion over five years from 2020-21 to distribute and administer COVID-19 vaccines to residents of Australia.

Women's safety

The Government has committed $998.1 million over four years for initiatives to reduce, and support the victims of Family, Domestic and Sexual Violence (FDSV) against women and children. A new National Partnership with the states and territories to expand the funding of frontline FDSV support will be introduces as part of this plan.

Further initiatives include important FDSV Services, $5,000 grants for women fleeing domestic violence, programs aimed specifically to support refugee and migrant women, programs to support Aboriginal and Torres Strait Islander women and children who have experienced or are experiencing family violence, and crucially a commitment to advertising, prevention and awareness campaigns.

Funding has also been provided for vulnerable women and children accessing the legal system and family support services.

Aged Care

The Royal Commission into Aged Care Quality and Safety provided the Government with a while suite of recommendations to improve the safety, quality and availability of aged care services. $17.7 billion has been committed to the whole-of-government response to these recommendations, including:

- $6.5 billion over four years to release 80,000 additional home care packages over two years from 2021-22 – bringing the total number to 275,598 by June 2023.
- Just under $700 million to improve access and infrastructure
- $783 million to provide greater access to respite care services and payments to support carers
- $272.5 million for dedicated face to face support services to navigate the aged care system
- $365.7 million to support health care within aged care facilities
- $200 million for a new rating system of aged care providers
- $3.9 billion to increase front line care
- $3.2 billion to support aged care providers through a new Government-funded Basic Daily Fee supplement of $10 per resident per day, while continuing the 30% increase in the homelessness and viability supplements
- $216.7 million to upskill the workforce and enhance nurse leadership and clinical skills through additional nursing scholarships and places in the *Aged Care Transition to Practice Program*.

Mental health and suicide prevention

The $2 billion National Mental Health and Suicide Prevention Plan funds a range of initiatives including the enhancement and expansion of digital mental health services, universal aftercare for those who have made a suicide attempt, and a network of Head of Health adult mental health centres and satellites to provide coordinated multi-disciplinary care.

Royal Commission into defence and veteran suicide

The Government has committed to $174.2 million over two years from 2021-22 for a Royal Commission into Defence and Veteran Suicide.

Key Budget assumptions

- A population-wide vaccination program is likely to be in place by the end of 2021.
- During 2021, localised outbreaks of COVID-19 are assumed to occur but are effectively contained.
- General social distancing restrictions and hygiene practices will continue until medical advice recommends removing them.
- No extended or sustained state border restrictions in place over the forecast period.
- A gradual return of temporary and permanent migrants from mid-2022. Small phased programs for international students will commence in late 2021 and gradually increase from 2022. The rate of international arrivals will continue to be constrained by state and territory quarantine caps over 2021 and the first half of 2022, with the exception of passengers from Safe Travel Zones.
- Inbound and outbound international travel is expected to remain low through to mid-2022, after which a gradual recovery in international tourism is assumed to occur.

Note that these Budget measures are subject to the passage of legislation.