

A COVID CASH BONANZA

FEDERAL BUDGET 2020-2021



The Federal Government tabled their proposed 2020-2021 Budget with a focus on stimulating jobs and the economy post Covid-19. The Budget is largely positive for both individuals and business taxpayers for the upcoming year and includes a raft of spending measures aimed at getting everyone to spend, with the ultimate aim of thereby generating jobs. However the result of this proposed Budget is a deficit of \$213.7 billion. The key measures of the Budget are outlined below.

Individual Tax Cuts

The Government had previously announced tax cuts which have now been brought forward and backdated to 1 July 2020. The LMITO will also be retained for an additional year. The new tax rates are as follows:

To 30 June 2018		STAGE 1 From 1 July 2018		STAGE 2 From 1 July 2022*		STAGE 3 From 1 July 2024	
Income threshold	Tax rate	Income threshold	Tax rate	Income threshold	Tax rate	Income threshold	Tax rate
\$18,200	19%	\$18,200	19%	\$18,200	19%	\$18,200	19%
\$37,000	32.5%	\$37,000	32.5%	\$45,000	32.5%	\$45,000	30%
\$87,000	37%	\$90,000	37%	\$120,000	37%	\$200,000	45%
\$180,000	45%	\$180,000	45%	\$180,000	45%		

* Under the 2020-21 Budget measure, this will become 1 July 2020.

These tax cuts mean that

- Individuals earning between \$45,000 and \$90,000 will have an additional \$1,080 of post-tax income in 2020-21.
- Individuals earning more than \$120,000 will have an additional \$2,565 of post-tax income in 2020-21.

Expanded Small Business Tax Concessions

Access to a range of small business tax concessions will be expanded to a larger base by increasing the definition of a small business to those who have an aggregated annual turnover of less than \$50m (increased from \$10m).

The affected business tax concessions include:

- Immediate deduction for certain start-up expenses (from 1 July 2020)
- Immediate deduction for certain prepaid expenditure (from 1 July 2020)
- FBT exemption for car parking benefits and multiple work-related portable electronic devices (from 1 April 2021)

- Simplified trading stock rules (from 1 July 2021)
- Two year amendment period (from 1 July 2021)
- Simplified use of Cash basis for GST Reporting (from 1 July 2021)
- Ability to use GDP-adjusted notional tax as the method for remitting PAYG instalments (from 1 July 2021)

Extension of Instant Asset Write-Off

Businesses with an aggregated turnover of less than \$5bn will be able to fully deduct (i.e. not depreciate) the full cost of eligible depreciable assets acquired from 6 October 2020 and first used or installed by 30 June 2022.

If the aggregated business turnover is less than \$50m, this also applies to second-hand assets. Small businesses with turnover less than \$10m will also be able to deduct the balance of their simplified depreciation pool.

For example, if you acquire a new truck for \$300,000 on 31 October 2020, you will be able to immediately write it off as a tax deduction.

It should be noted that other commercial considerations need to be factored and the decision to purchase an asset should not be made solely for tax reasons.

Loss Carry Back Provisions

Companies with an aggregated turnover of less than \$5bn that have a tax loss for any of the 2019/20, 2020/21 and 2021/22 income years will be able to apply those losses against taxable profits made in the 2018/19, 2019/20 and 2020/21 income years to effectively receive a refund of tax paid in the prior year.

POTENTIAL MAXIMISED

+61 8 9489 2555

info@maximadvisory.com.au

maximadvisory.com.au

1298 Hay Street, West Perth, WA 6005

PO Box 237, West Perth, WA 6872

The refund is limited in that:

- The amount carried back can't be more than the profits that were taxed in the earlier year; and
- The carry-back must not generate a franking account deficit.

An example:

In the 2018–19 and 2019–20 income years, Zipline Adventures Pty Ltd paid tax of \$3 million on \$10 million of taxable income (i.e. the company made an annual taxable profit of \$5 million which attracted tax of \$1.5 million each year).

In 2020–21, the company made a tax loss of \$4 million.

Under the current law, the company can carry the loss forward to offset against assessable income in a future income year.

Under loss carry-back, the company can choose to carry-back the \$4 million loss against the taxes paid in the 2018–19 and 2019–20 income years. It claims a refundable tax offset of \$1.2 million in its 2020–21 income tax return.

Other Company Tax Changes

- There will be changes to the residency tests for companies that are incorporated offshore. These companies will be treated as an Australian tax resident if they have a “significant economic connection to Australia”.
- Changes are being made to the R&D tax concessions to increase the number of eligible companies that this will apply to.

If you are impacted by these changes, Maxim will contact you to discuss as these are fairly complex.

JobMaker Incentives for hiring staff

- Employers will receive a “Hiring Credit” for each additional new job created over the 12 months from 7 October 2020. Eligible employers will receive \$200/week for eligible employees aged 16 to 29 and \$100/week for those aged 20 to 35

years. These employees must have worked at least 20 hours/week and received either JobSeeker, Youth Allowance or Parenting Payment in at least one of the three months prior to being hired.

- Employers who hire new or returning apprentices and trainees will be eligible for a wage subsidy of up to 50% of their wage, capped at \$7,000/quarter. This subsidy runs from 5 October 2020 to 30 September 2021.

Lending

The Government's responsible lending reforms are being implemented to give consumers and businesses easier access to credit. A key element is to allow lenders to rely on the information provided by borrowers, replacing the “lender beware” practice with a “borrower responsibility” principle.

Superannuation

- The ATO will develop a system so new employees will be able to select a superannuation product from a table of “My Super products” through the “YourSuper portal”
- Existing superannuation accounts will be “stapled” to a member to avoid the creation of numerous superannuation accounts when that member changes employers.

If you would like more information, then feel free to contact either Gino Terriaca, Tony Cassettai or your Client Manager at Maxim Private Advisory on (08) 9489 2555.

Please note that this is general information only and professional advice should be obtained before acting on any information contained herein.

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