2020/21 BUDGET ANNOUNCEMENT

The Government budget announcement on 6 October 2020 for 2020 – 2021 financial year was delayed the from the usual delivery date of the second Tuesday in May as a result of COVID -19. The Government's big spending and cash splash budget announcement was in response to the forecasted economic impact of COVID 19.

GDP declined by 7 percent in the June 2020 quarter which has been the largest contraction since the 1930's. The Government nominal GDP projection for 2020-2021 is forecasted to decrease by 1.75%. The unemployment rate is forecasted to balloon to 7.25% in 2020-21. The Government's budget reaction to the decline in GDP and spike in unemployment has the Government forecasting a rebound in nominal GDP and expects this to increase by 3.25% in 2021-22 and by 4.5% in 2022-23 and unemployment to fall to 6.5% in 2021-22 and 6% in 2022-23.

The Government's key budget policies revolve around tax breaks, job subsidies and tax incentives for spending. The majority of the big spending budget tax incentives are temporary in nature. The Government is pinning its hopes the spending will provide sustained growth once the tax incentives end. Personally we are less optimistic, we see these measures as bringing forward expenditure from future years. This will create a significant risk and likelihood of their being a spending cliff once these tax incentives finish. At that time we expect the Government to be under pressure to have the incentives be extended in order for the economy to continue on the same growth path. As a result we expect these measures to remain as part of the tax system in some way, shape or form and at a significant cost to the Government.

The key measures from the 2020 - 21 budget are outlined below:

PERSONAL TAX MEASURES

- Retaining the low and middle income tax offset (LMITO) of up to $1,080 for 2020-21 and increasing the low income tax offset (LITO) from $445 to $700.
- Increasing the threshold of the 19% income tax bracket from $37,000 to $45,000. Increasing the threshold of the 32.5% tax bracket from $90,000 to $120,000.

Low and middle income tax offset (legislated for 2021-22)

TAXABLE INCOME (TI)	LMITO
$0 - $37,000	$255
$37,001 – $48,000	$255 – (TI – $37,000) x 7.5%
$48,001 – $90,000	$1,080
$90,001 – $125,999	$1,080 – (TI – $90,000) x 3%
$126,000 +	Nil

Low income tax offset (proposed for 2021-22)

TAXABLE INCOME (TI)	LITO
$0 - $37,500	$700
$37,501 – $45,000	$700 – ([TI – $37,500] x 5.0%)
$45,001 – $66,667	$325 – ([TI – $45,000] x 1.5%)
$66,668+	Nil

Tax rates and thresholds for 2020-21 onwards

RATE	2020-21 (CURRENT)	2020-21 (PROPOSED) TO 2021 - 22	2022 - 23 TO 2023 - 24
Nil	$0 - $18,200	$0 - $18,200	$0 - $18,200
19%	$18,201 – $37,000	$18,201 – $45,000	$18,201 – $45,000
32.5%	$37,001 – $90,000	$45,001 – $120,000	$45,001 – $120,000
37%	$90,001 – $180,000	$120,001 – $180,000	$120,001 – $180,000
45%	$180,001 +	$180,001 +	$180,001 +

RATE	2022 - 23 TO 2023 - 24
Nil	$0 - $18,200
19%	$18,201 – $45,000
30%	$45,001 – $200,000
45 %	$120,001 – $180,000

SMALL BUSINESS

Temporary outright deduction for capital assets

From 7:30pm (AEDT) on 6 October 2020 until 30 June 2022, businesses with aggregated annual turnover up to $5 billion will be able to deduct the full cost of eligible depreciable assets of any value in the year they are installed. The cost of improvements to existing eligible depreciable assets made during this period can also be fully deducted.

Temporary loss carry-back

Companies with turnover up to $5 billion will be able to offset losses against previous taxed profits on which tax has been paid, to generate a refundable tax offset in the year in which the loss is made. Currently, companies are required to carry losses forward to offset profits in future years.

Losses incurred up to 2021-22 can be carried back against profits made in or after 2018 - 19. Eligible companies may elect to receive a tax refund when they lodge their 2020-21 and 2021 - 22 tax returns.

Small business tax concessions extensions

The small business entity turnover threshold to access a range of small business tax concessions has been increased from $10 million to $50 million. For the first time, a range of up to 10 further small business tax concessions will be available and implemented in three phases.

JobMaker Hiring Credit

The Government will support jobs growth for those aged 35 years and under by introducing a new credit for businesses that take on additional employees. From 7 October 2020, businesses will receive a 'JobMaker Hiring Credit' for each new job they create over the next 12 months for which they hire an employee aged 16 to 35.

Employers will receive for up to 12 months:

- $200 a week if they hire an eligible young person aged 16 to 29 years; or
- $100 a week if they hire an eligible young person aged 30 to 35 years.

A maximum amount of $10,400 is available per additional new position created. To be eligible, employees must have worked 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.

SUPERANNUATION

Your Future, Your Super reforms

The Government will implement a range of reforms to improve outcomes for superannuation fund members. Commencing 1 July 2021 these reforms focus on the following:

- **Comparing fund performance.** A new online comparison tool will be developed by the Australian Tax Office allowing new employees to select a superannuation product by using a performance and fee-based comparison for a range of MySuper products.
- **Your super follows you when changing jobs.** An existing superannuation account will be 'stapled' to a member, avoiding the creation of a new account when changing their employment. Where a new employee does not have an existing superannuation account and does not nominate a superannuation fund, the employer will pay the employee's superannuation into the employer's default superannuation fund.
- **Holding funds to account for underperformance.** The Australian Prudential Regulation Authority (APRA) will conduct benchmarking tests on the net investment performance of MySuper products. Products that have underperformed for over two consecutive annual tests will be prohibited from receiving new members until a further annual test shows they are no longer underperforming.
- **Increasing transparency and accountability.** There will be improved transparency and accountability of superannuation funds by strengthening obligations on superannuation trustees to ensure their actions are consistent with members' retirement savings being maximised.

OTHER INTERESTING BUDGET MEASURES

Wage subsidy for new apprentices

The Government will provide a capped 50 percent wage subsidy to businesses who take on a new Australian apprentice from 5 October 2020 to 30 September 2021. This subsidy is available to employers of any size or industry, however the following caps apply:

- it is limited to 100,000 new apprentices or trainees in total; and
- the 50 percent subsidy will be limited to $7,000 per quarter (i.e. $28,000 per annum).

Additional 10,000 places for the first home loan deposit scheme

The Government will add an additional 10,000 places from 6 October 2020 to support the purchase of a new home or a newly built home. The additional guarantees will be available until 30 June 2021.

Economic support payments

To assist households in the lead up to Christmas and in the new year, two separate $250 Economic Support Payments will be provided to eligible Australians. To qualify, individuals must be living in Australia and receive one of the following payments, or hold one of the following health care cards, on 27 November 2020 and/or 26 February 2021:

- Age Pension
- Disability Support Pension
- Carer Payment
- Family Tax Benefit, including Double Orphan Pension (not in ceipt of a primary income support payment)
- Carer Allowance
- 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 will be made progressively from 30 November 2020 and 1 March 2021. The payments are also exempt from taxation and will not count as income for the purposes of any income support payment.

Removing capital gains tax (CGT) for granny flat arrangements

The Government proposes a CGT exemption for granny flat arrangements where there is a formal written agreement in place. The changes mean CGT will not apply to the creation, variation or termination of a formal written granny flat arrangement providing accommodation for older Australians or people with disabilities. The CGT exemption will only apply to agreements that are entered into because of family relationships or other personal ties and will not apply to commercial rental arrangements.

This measure is proposed to take effect from 1 July 2021.

For further information on any of these budget changes and how they may impact your business or you please contact one of our accountants in North Sydney or Crows Nest.

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