

FEDERAL BUDGET 2020-21

Introduction

The 2020-21 Federal Government handed down its Budget on 6 October 2020, deferred from the original date of 12 May 2020 due to the COVID-19 pandemic. The budget is firmly focussed on supporting Australia's recovery from the first recession since 1991 and worst economic performance since 1959.

The below outlines the primary announcements made:

TAX

Personal tax cuts

Effective 1 July 2020

The Government has announced it will bring forward, by two years, stage two of the previously legislated tax cuts that were due to take effect from 1 July 2022.

As a result, from 1 July 2020:

- the **Low Income Tax Off set (LITO)** will increase from \$445 to \$700. The increased LITO will be reduced at a rate of 5 cents per dollar for taxpayers that have taxable incomes between \$37,500 and \$45,000. The LITO will then be reduced at a rate of 1.5 cents per dollar for taxpayers that have taxable incomes between \$45,000 and \$66,667.
- the top threshold of the 19% tax rate will increase from \$37,000 to \$45,000, and
- the top threshold of the 32.5% tax rate will increase from \$90,000 to \$120,000.

The Government has also announced that the **Low and Middle Income Tax Offset (LMITO)**, which was due to be removed with the commencement of the stage two tax cuts on 1 July 2022, will be maintained for the 2020-21 year only.

However, it should be noted that the tax cut of \$1,080 for individuals earning between \$48,000 and \$90,000 will only apply for this year and will cease to be apply from 1 July 2021 due to LMITO being phased out from that date.

Other individuals earning below \$126,000 will also be impacted (to a lesser extent) by the removal of LMITO from 1 July 2021.

BUSINESS TAX INCENTIVES

Temporary full expensing

Effective 6 October 2020

Businesses with aggregated annual turnover below the relevant threshold will be able to deduct the full cost of eligible capital assets acquired from 7:30pm AEDT on 6 October 2020 (Budget night) 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 for businesses with aggregated annual turnover of less than \$5 billion.
- Full expensing also applies to second-hand assets for small and medium-sized businesses with aggregated annual turnover of less than \$50 million.

Full expensing does not apply to second-hand assets for businesses with aggregated annual turnover of \$50 million or more.

Enhanced instant asset writing-off

First used and installed 30 June 2021

Business 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 existing expanded instant asset write-off measure.

The existing enhanced instant asset write-off measure requires an eligible asset to be first used or installed by 31 December 2020 to qualify. The Government announced that businesses that hold assets eligible for the enhanced \$150,000 instant asset write-off will have an extra six months (until 30 June 2021) to first use or install those assets.

Temporary loss carry-back

Effective from 2019-20

Under the existing rules, companies are required to carry losses forward to offset profits in future years.

The Government has announced that it will allow companies with aggregated annual turnover of less than \$5 billion to carry back tax losses from

2019-20, 2020-21 or 2021-22 income years to offset previously taxed profits in the 2018-19 or later income years.

Eligible corporate tax entities can elect to apply tax losses against taxed profit in a previous year, generating a refundable tax offset in the year in which the loss is made. The tax refund is limited by 6 requiring that the amount carried back is not more than the earlier taxed profit and cannot result in a franking account deficit.

The tax refund will be available on election by eligible companies when they lodge their 2020-21 and 2021-22 tax returns.

Companies that do not elect to carry back losses under this measure can still carry losses forward as normal.

Increasing the small business entity turnover threshold to access certain tax concessions

Measures staggered from 1 July 2020

The Government will expand access to a range of small business tax concessions by increasing the small business entity turnover threshold for these concessions from \$10 million to \$50 million.

Businesses with an aggregated annual turnover of \$10 million or more, but less than \$50 million, will for the first time have access to up to 10 further small business tax concessions in three 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% fringe benefits tax on car parking and multiple work-related portable electronic devices (such as phones or laptops) provided to employees.
- From 1 July 2021, eligible businesses will be able to:
 - access the simplified trading stock rules;
 - remit pay as you go (PAYG) instalments based on GDP-adjusted notional tax;
 - settle excise duty and excise-equivalent customs duty monthly on eligible goods under the small business entity concession;
 - have a two-year amendment period apply to income tax assessments for income years starting from this date.

In addition, from 1 July 2021, the ATO will have the power to create a simplified accounting method determination for GST purposes for these businesses.

SUPERANNUATION REFORM

Super 'stapled' to a member

Effective 1 July 2021

When a person starts a new job and does not nominate a super fund, employers will be required to contribute to the employee's existing super account, rather than the employer's default super fund.

Under this measure, the existing super account will be 'stapled' to the member so that they keep their current super fund when they change jobs. The aim of this measure is to improve member outcomes by reducing unintended multiple super accounts that erode member balances through unnecessary fees and insurance premiums.

This measure implements Recommendation 3.5 of the Hayne Royal Commission.

Employers will be able to obtain the new employee's existing super fund details from the ATO's online services.

It is important to note that the opportunity to nominate a chosen fund is still available under this reform.

YourSuper comparison tool – making it easier to choose

Effective 1 July 2021

A new, interactive, online YourSuper comparison tool, to be developed by the ATO, will make it easier for members to choose their super fund. The online tool will:

- rank MySuper products by fees and investment returns
- provide links to super fund websites
- show the member's current super accounts and prompt members to consolidate.

Holding funds to account for underperformance

Effective 1 July 2021

By 1 July 2021, APRA will conduct annual benchmarking tests on the net investment performance of MySuper products.

If a fund is deemed to be underperforming, it will need to inform its members of its underperformance by 1 October 2021. At this time, members must also be provided with information about the YourSuper comparison tool, which will identify any underperforming funds.

Funds that fail two consecutive annual underperformance tests will not be permitted to accept new members until a further annual test shows that they are no longer underperforming.

By 1 July 2022, annual performance tests will be extended to other superannuation products.

New duties and responsibilities for super fund trustees

Effective 1 July 2021

The Government will ensure superannuation trustees are more accountable and transparent as to how they manage the retirement savings of members.

By 1 July 2021:

- Superannuation trustees will be required to comply with a new duty to act in the best financial interests of members.
- Trustees must demonstrate that there was a reasonable basis to support their actions that is consistent with members' best financial interests.
- Trustees must provide members with key information regarding how they manage and spend their money in advance of Annual Members' Meetings.

SMSF and small APRA funds – deferring the increase in the maximum number of allowable members from four to six

Effective – enabling legislation receives Royal Ascent

In the 2018-19 Federal Budget, the government proposed to increase the maximum number of allowable members in self-managed super funds and small APRA funds from four to six commencing from 1 July 2019.

This measure is now proposed to commence from the date the enabling legislation receives Royal Assent.

Superannuation – deferring the start date to reduce red tape

Effective 1 July 2021

In the 2019-20 Federal Budget, the government proposed the budget measure Superannuation — reducing red tape for superannuation funds (exempt current pension income changes). This measure aimed to simplify the process of claiming exempt current pension income in certain circumstances by allowing trustees to choose to use the proportionate method rather than the segregated method. In the 2020-21 budget, the start date has been deferred for another 12 months to 1 July 2021.

AGED CARE

More funding for Home Care packages

Effective from 2020-21

The Government will improve waiting times for Home Care Packages by increasing funding for 23,000 additional home care packages across all package levels.

In addition, improvements will be made to navigating the aged care system including classifying the care needs of older Australians through one unified system.

SOCIAL SECURITY

\$250 Economic Support Payments

Effective December 2020 and March 2021

The Government is providing two separate one-off Economic Support Payments of \$250 to individuals receiving eligible income support payments or concession cards.

The \$250 payments will be paid progressively from December 2020 and March 2021. Eligible individuals must be in receipt of the following payments as at 27 November 2020 and/or 26 February 2021:

- Age Pension (including Age Pension (Blind))
- Carer Allowance*
- Carer Payment
- Commonwealth Seniors Health Card
- Disability Support Pension (including Disability Support Pension (Blind))
- Double Orphan Pension*
- DVA Gold Card • DVA Payments
- DVA Seniors Card
- Family Tax Benefit (fortnightly recipients)*
- Family Tax Benefit (lump sum recipients)*
- Pensioner Concession Card (PCC) holders (covers non-income and asset test PCC holders and customers who have an extended entitlement to a PCC even though their payment has stopped).

** if they are not receiving a primary income support payment.*

Parental Leave Pay – Work test exemption

Effective – child born or adopted between 22 March 2020 and 31 March 2021

The Government is temporarily extending the work test for Paid Parental Leave and Dad and Partner Pay from 13 months to 20 months, for those affected by the Coronavirus pandemic.

To be eligible for the extended work test, the individual must:

- not meet the current work test because their employment is impacted by the Coronavirus pandemic, and
- have a child born or adopted between 22 March 2020 and 31 March 2021.

For Parental Leave Pay, the work test period for these parents will be extended from 13 months to 20 months before either the:

- birth or adoption of their child, or
- start of their Dad and Partner Pay period.

This means work undertaken by the parent before Coronavirus can be counted towards the work test. In the extended 20-month work test period, these parents will need to meet the work test requirements of:

- 330 hours in a 10-month period, and
- no more than a 12-week break between work days.

DVA Disability Pensions – exempt for rent assistance and income support payments

Effective – Measures staggered between 1 July 2021 and 20 September 2022

Several changes will be made to the DVA Disability Pension including:

- exempted from the Social Security Act income test
- exempted from the calculation of rent assistance under the Veterans Entitlement Act
- renamed Disability Compensation Payment.

Pension Loans Scheme – additional resources

Effective June 2021 and ongoing

The Government is making the following improvements to the services available to customers regarding the Pensions Loan Scheme:

- loan calculator to help people test their eligibility and estimate loan balances
- electronic loan repayments
- online services to make changes to loan terms and print itemised statements
- improved access to specialist staff
- joint online claim for partnered customers
- ability to complete regular loan reviews online.

JOBS AND MANUFACTURING

JobMaker hiring credit

Over three years from 7 October 2020

To support organisations in taking on new employees, the Government proposes to pay a hiring credit for up to 12 months for each new job. This is available from 7 October to employers who hire eligible employees age 16 to 35.

The credit will be paid quarterly in arrears at the rate of \$200 per week for those age 16 to 29, and \$100 per week for those age 30 to 35. Eligible employees are required to work a minimum of 20 hours per week and receive 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.

To be eligible, employers will need to demonstrate an increase in overall employee headcount and payroll for each additional new position created.

Apprenticeships wage subsidy

From 5 October 2020

From 5 October 2020 to 30 September 2021, businesses of any size will be able to claim a new Boosting Apprentices 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 worth up to \$7,000 per quarter, capped at 100,000 places.

The wage subsidy will support school leavers and workers displaced by the Coronavirus-related downturn to secure sustainable employment.

For more information regarding the Federal Budget announcements, please contact your Paradigm Group financial advisor.

**Data sourced from CFS FirstTech Federal Budget Briefing – 7 October 2020*