

Federal Budget 2020/2021

By Darren Wilson

6 October 2020



The Federal Treasurer of Australia, Mr Josh Frydenberg, handed down the 2020/21 Federal Budget on 6 October 2020.

It was only 17 months ago that the Federal Government announced that Australia's budget position was to be *'Back in the Black'*. Of course, in early 2020, the Australian and World economy was hit by a major shock - the COVID-19 Pandemic.

The 2020/21 budget papers note that 'the COVID-19 recession is Australia's first in almost 30 years, and the pandemic represents the greatest challenge for the global economy since the Great Depression'. The papers also note that real GDP fell by 7 per cent in the June quarter 2020, "as travel restrictions and other pandemic containment measures affected the ability of consumers and businesses to undertake their usual spending and investment activities."

On a positive note (when read in conjunction with various assumptions) the budget provides that economic activity is forecast to pick up strongly from late 2020 and into early 2021, 'driven by a further easing of containment measures and improving business and consumer confidence'.

In light of the economic challenges, Mr Frydenberg said that the 2020/21 budget is '*all about jobs*'. In order to create jobs, the focus of the budget is on personal tax relief and government expenditure.

Some key issues raised in the budget relevant to businesses are noted below. As is the case with all tax announcements, the devil will be in the detail. All issues raised are mere announcements and are subject to law being passed by parliament.

Instant Asset Write-off

Businesses with a turnover of up to \$5 billion will be able to immediately deduct the full cost of eligible depreciable assets (eg new assets and improvements to existing assets) acquired from 7:30pm (AEDT) on 6 October 2020 and first used or installed by 30 June 2022. There will be no cap on the cost of the asset.

For SME's with aggregated turnover of less than \$50 million, full expensing also applies to second-hand assets.

Businesses with aggregated 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. Such businesses will have an extra six months, until 30 June 2021, to first use or install those assets.

Small businesses (less than \$10 million turnover) can deduct the balance of their simplified depreciation pool at the end of the income year while full expensing applies.

Loss Carry Back Measures (Companies)

The Government will temporarily allow companies with a turnover of up to \$5 billion to offset tax losses against previous profits on which tax has been paid.

Normally, businesses would have to return to profit before they can use their losses.

Eligible companies will be able to carry back tax losses from the 2020, 2021 or 2022 years to offset previously taxed profits in the 2019 or later income years.

Small Business – Increase in Threshold

Businesses with an aggregated annual turnover between \$10 million and \$50 million will, for the first time, be able to access up to ten small business tax concessions.

The expanded concessions will apply in three phases, with the first phase starting from 1 July 2020.

The proposals include:-

- 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 FBT on car-parking and multiple work-related portable devices provided to employees.
- From 1 July 2021, eligible businesses will be able to access simplified trading stock rules, and remit PAYG instalments based on GDP adjusted notional tax. Some businesses will also be eligible for a 2 year amendment period rule.

Other business taxation items of note

The government also announced:

- The Victorian Government's business support grants announced on 13 September 2020 will be non assessable for income tax purposes.
- The introduction of an exemption from FBT for certain training provided to redundant and soon to be redundant employees.
- The current FBT exemption for small business car parking fringe benefits will be extended to include businesses with annual turnover up to \$50 million.
- It will provide the ATO with the power to allow employers to rely on existing corporate records rather than employee declarations for FBT purposes.
- As a result of a 2016 High Court decision, technical amendments will be made to clarify the corporate residency test so that foreign incorporated companies with significant economic connection to Australia will be treated as Australian Tax Residents.
- Research and Development changes previously announced would be further 'refined'.

Personal Tax Cuts

The Government is proposing to bring forward stage two of its Personal Income Tax Plan. These cuts were originally due to apply from 1 July 2022, but will now be backdated to 1 July 2020 and will likely affect future PAYG withheld from employee salary and wages.

Under stage two, the 19 per cent tax rate will apply to income up to \$45,000 (previously \$37,000) and the 32.5 per cent tax rate will apply to income up to \$120,000 (previously \$90,000).

The low income tax offset will also increase from \$445 to \$700 (scaling will apply to taxable income over \$37,500).

The government will retain the Low and Middle Income Tax Offset (LMITO) for 2020-21. This means that low-and middle-income earners will receive a one-off additional benefit of up to \$1,080.

Job-making

The government announced various measures to support job creation including a hiring credit and apprentice / trainee subsidy.

A 'JobMaker Hiring Credit' will be available to employers from 7 October 2020 for each new job they create over the next 12 months for which they hire an eligible young person. For each eligible employee, 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.

To be eligible young job seekers must have received JobSeeker Payment, Youth Allowance (Other) or Parenting Payment for at least one of the previous three months at the time of hiring.

Employers must demonstrate that they have increased their overall employment to receive this payment for up to 12 months for each position created. To claim the JobMaker Hiring Credit, employers need to report their employees' payroll information to the Australian Taxation Office through Single Touch Payroll.

There will be various other tests including working hours that should be reviewed upon passing of any legislation.

From 5 October 2020, businesses who take on a new Australian apprentice or trainee will be eligible for a 50 per cent wage subsidy, regardless of geographic location, occupation, industry or business size.

Under the new measure, employers will be eligible for 50 per cent of the wages for a new or recommencing apprentice or trainee for the period up to 30 September 2021 (up to \$7,000 per quarter).

Manufacturing Support

The Government identified six priority areas for support in a \$1.5 billion expenditure manufacturing plan:

- The resources technology and critical minerals processing
- Food and beverage manufacturing
- Medical products

- Clean energy and recycling
- Defence industry, and
- The space industry

If you have any queries, or would like to discuss the above further, please contact your [Fordham Partner](#) on +61 3 9611 6611.

This information has been prepared by Fordham Business Advisors Pty Ltd (Fordham) ABN 77 140 981 853. Fordham's liability is limited by a scheme approved under Professional Standards Legislation. It is general information only and is not intended to provide you with advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. This information is believed to be accurate at the time of compilation and is provided in good faith. Fordham is a subsidiary of Perpetual Limited ABN 86 000 431 827.