

BusinessPlus+ Newsletter



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Federal Budget Edition – October 2020

Federal Budget Overview

This edition of the Business Plus+ newsletter is a commentary on the Australian Government's 2020/21 Budget which was delivered by the Federal Treasurer last night.

Please note that the Government's Budget will now be debated in the House of Representatives and the Senate must approve the Budget items before any of these items become law.

If you would like to discuss with us any of the matters that were included in the Government's Budget, please do not hesitate to contact the accountant in our organisation with whom you normally deal.

Budget Summary

The Australian Government's Treasurer, Josh Frydenberg, handed down the Liberal/National Party Coalition Government's delayed Budget for 2020/21 on 6 October 2020.

In his Budget speech, Mr Frydenberg indicated that:

"The global economy is expected to contract by 4.5% this year as compared to just 0.1% during the Global Financial Crisis".

"COVID-19 will see our deficit reach \$213.7 billion this year, falling to \$66.9 billion by 2023-24. Net debt will increase by \$703 billion or 36% of GDP this year and peak at \$966 billion or 44% of GDP in June 2024".

The major announcements affecting small businesses and medium-sized enterprises were:

JobMaker Hiring Credit

JobMaker Hiring Credit – *"Starting tonight, there will be a new JobMaker Hiring Credit to encourage businesses to hire young Australians".*

The JobMaker Hiring Credit will be payable for up to 12 months and immediately available to employers who hire those on jobseeker aged 16 to 35. It will be paid at the rate of \$200 per week for those aged under 30 and \$100 per week for those aged between 30 and 35. New hires must work for at least 20 hours per week.

Apprentices/Trainees

Apprentices/Trainees – the government has committed \$1.2 billion to create 100,000 new apprenticeships and traineeships with a 50% wage subsidy for businesses who employ these apprentices and trainees.

Taxation Rates Reduced

Taxation Rates Reduced – more than 11 million taxpayers will get a tax cut backdated to 1st July 2020.

Lower and middle income earners will, this year, receive tax relief of up to \$2,745 for singles and up to \$5,490 for dual income families as compared with 2017/18. This will be achieved by bringing forward stage two of the government's legislated tax cuts by 2 years, lifting the 19% threshold from \$37,000 to \$45,000 and lifting the 32.5% threshold from \$90,000 to \$120,000.

The government has also indicated that it will retain the low and middle income tax offset of \$1,080 for the current financial year.

Instant Asset Write Off

Instant Asset Write Off – from 6th October 2020 businesses, with turnovers under \$5 billion per annum, will be able to write off the full value of any eligible asset they purchase for their business until 30th June 2022.

Loss Carry Back

Loss Carry Back – losses that are incurred by companies to June 2022 can be offset against prior profits made in, or after, the 2018/19 financial year.

Manufacturing Incentive

Manufacturing Incentive – the government has settled on 6 priority areas it believes represents the future of Australian manufacturing and will spend an initial \$1.5 billion encouraging their development as part of its post-recession plans.

Australian Economy

Australian Economy – the government is forecasting that the Australian economy will fall by 3.75% this calendar year and unemployment will peak at 8% in the December quarter. In 2020- 21 calendar year the government is forecasting the economy to grow by 4.25%.

The government is forecasting unemployment to fall to 6.5% by the June quarter 2022.

A summary of the government announcements that relate to SMEs are as follows:

Research and Development

The government has made significant changes to the Research and Development Tax Incentive Rules thus reversing many of the changes that the government had proposed in its previous Budget which have been stalled in the Senate.

The government has announced a new commitment of up to \$2 billion to Research and Development Tax Incentive.

The changes include the scrapping of the \$4 million refund limit for companies with an annual turnover of less than \$20 million.

The refundable R & D Tax Offset for small companies (turnover under \$20 million annually) will be set at 18.5% above the claimant's company tax rate, up from 13.5% proposed in the current bill.

Companies with annual turnover of \$20 million or more will still face a tiered intensity approach that will now see 2 tiers instead of 3. The marginal research and development premium will be 8.5% percentage points above the claimant's company tax rate for research and development expenditure between 0% and 2% R & D Intensity.

For companies with R & D expenditure above 2%, R & D Intensity will see the premium rise to 16.5%.

The government will also defer the start date for the changes to 1st July 2021 giving certainty to businesses that R & D tax claims made in relation to the 2019/20 and 2020/21 income years would be subject to current enacted legislation.

Instant Asset Write Off

The temporary supercharged Instant Asset Write Off will be available to businesses with turnovers up to \$5 billion. Businesses will be able to deduct the full cost of eligible depreciable assets of any value.

Qualifying assets need to be acquired after 7:30pm on 6th of October 2020 and must be first used or installed by 30th June 2022.

Small and medium-sized businesses, with annual turnover of less than \$50 million, will be able to fully expense the acquisition of second-hand assets.

Eligible businesses that acquire eligible new or second-hand assets, under the enhanced \$150,000 Instant Asset Write Off by 31st December 2020, will also have an extra 6 months, until 30th June 2021, to first use or install those assets.

Rules which prevent small businesses from re-entering the Simplified Depreciation Regime for 5 years, if they opt out, will continue to be suspended.

Fringe Benefits Tax Changes

The government is proposing a number of changes relative to Fringe Benefits Tax applicable from 1st April 2021 including:

- Employers would be exempt from FBT for retraining employees who face redundancy largely to be redeployed elsewhere in the business to take up a new role.
- FBT will be scrapped for benefits such as car parking or items provided to employees, including phones and laptop computers.
- The government is expanding the number of small businesses eligible for tax concessions by expanding the turnover threshold from \$10 million to \$50 million.

Start-Up Costs

Businesses will be able to claim the cost of professional, legal and accounting advice immediately, as opposed to the current system, where the costs are deducted over a 5 year period.

Tax returns amended by ATO

The government has indicated that from July 2021 the amount of time available for small businesses to have their returns amended by the Tax Office will be halved from 4 years to 2 years.

Beer Excise Reports

The government is proposing that small breweries and distillers will be able to report their beer excise monthly, rather than weekly.

JobMaker Hiring Credit

The JobMaker Hiring Credit will be \$200 a week for workers aged 16 to 29 and \$100 a week for workers aged 30 to 35.

For employers to claim the subsidy, new hires must work for, at least, 20 hours a week and the business must show an increase in overall headcount.

The employee must also have been receiving JobSeeker, Youth Allowance or a Parenting Payment for, at least, one of the previous three months at the time of hiring.

Businesses already claiming JobKeeper will be ineligible for the JobMaker Hiring Credit subsidy.

Whilst jobs created from 7th October 2020 will be eligible, employers will have to make claims in arrears, on a quarterly basis, from 1st February 2021.

The government strategy is that the JobMaker Hiring Credit Scheme will be closed to new entrants from 7th October 2021.

Unemployment

The government expects unemployment to peak at 8% and to end up at 7.25% this financial year.

The government's 6% unemployment target will not be reached for another 4 years when it is projected to hit 5.5% in financial year 2024.

Loss Carry Back

Unfortunately, the Loss Carry Back initiative does not apply to sole traders, partnerships or trusts. The Loss Carry Back allows businesses to access their losses earlier through a cash refund for losses accrued in 2019 – 20, 2020 – 21 and 2021 – 22 when businesses lodge their 2020/21 and 2021/22 tax returns.

Superannuation Funds Due Diligence

Superannuation funds face an annual performance test, public ranking by the Australian Taxation Office and the loss of an easy source of new members under a trio of budget measures designed to weed out poor performing superannuation funds.

The government will also bolster the legal obligations of super fund trustees to act ethically and in the best interest of their members.

The government will legislate a "strict requirement for trustees to ensure expenditure is motivated solely by the best financial interests of members and ensuring they disclose how they are spending members money".

From 1st July 2021, superannuation funds that fail to pass a new annual performance test run by the prudential regulator will be banned from accepting new members.

The Australian Taxation Office has been tasked with establishing systems to allow consumers to more easily compare and select My Super products via a newly created online portal called Your Super.

The government believes that the new measure will result in more competition which will drive down super fund fees and increase retirement savings.

The Budget also includes a significant change where employees will automatically keep their existing super fund when switching jobs, rather than needing to opt in to keep their chosen fund to avoid being defaulted into a fund of the employer's choice. This change is designed to stop the proliferation of multiple and unintended superannuation accounts which the government believes contributes to high fees being charged to superannuation fund members.

Age and Disability Pensioners

Age and disability pensioners will receive two separate one-off \$250 payments while permanent pension rates will remain unchanged.

First Home Buyers Scheme

Up to 10,000 more first home buyers will be able to get a loan to build a new home or buy a newly built home with a deposit of, at least, 5%.

Manufacturers

The government is proposing about \$1.5 million in grants to encourage manufacturing activities in:

- Resources and Critical Minerals
- Food and Beverages
- Medical Products
- Recycling and Clean Energy
- Defence and Space

The Prime Minister has indicated that the overarching objective of the Australia's Modern Manufacturing Strategy is to build, scale and capture income in high-value areas of manufacturing where Australia has either established competitive strength or emerging priorities.

The Prime Minister indicated that we cannot, and should not, seek to reach global scale in a large number of sectors.

The government has announced that it will partner with industry to draw up, by April 2021, a plan for each sector – including benchmarks such as jobs created and levels of research and development and investment for each for the next 2, 5 and 10 years.

Affordable Housing Developers

An extra \$1 billion in low-cost financing to help build more affordable housing.

The Film and Television Studios Industry

The film and television studios industry will receive \$53 million in funding and rejigging local content rules.

Ecotourism Industry

The government will spend \$61 million to promote more environmental tourism.

An Important Message

While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.

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