

2020 Federal Budget Summary

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Written by

Keat Chew, Head of Technical Services, Netwealth

Nigel Smith, Technical Services Consultant, Netwealth

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Introduction

The following 'adviser-only' paper provides a summary of information announced in the 2020 Federal Budget that may be of interest to financial advisers and their clients.

Please note that many of these announcements are yet to be legislated, and care should be taken before implementing a financial strategy based on Budget announcements alone.

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Unless specified otherwise, all information is current as at 7/10/2020

Personal taxation



Bringing forward the Personal Income Tax Plan

The Government will bring forward the second stage of its Personal Income Tax Plan by two years to 1 July 2020:

- The top threshold of the 19 per cent personal income tax bracket will increase from \$37,000 to \$45,000
- The low-income tax offset (LITO) will increase from \$445 to \$700. The increased LITO will be withdrawn at a rate of 5 cents per dollar between taxable incomes of \$37,500 and \$45,000. The LITO will then be withdrawn at a rate of 1.5 cents per dollar between taxable incomes of \$45,000 and \$66,667
- The top threshold of the 32.5 per cent personal income tax bracket will increase from \$90,000 to \$120,000

The low- and middle-income tax offset (LMITO) which provides a reduction of tax of up to \$1,080 was previously scheduled to be removed as part of Stage 2 tax cuts but will now be retained for the 2020-21 income year. This is intended to provide further targeted tax relief for low and middle-income earners.

Stage 3 of personal income tax reductions remains unchanged and commences in 2024-25 as legislated.

The following tables summarise the new rates brought forward in this Budget and those due to be introduced in 2024-25:

Personal income tax thresholds

Rates	Personal income tax thresholds 2020-21 to 2023-24
Nil	\$0 to \$18,200
19%	\$18,201 to \$45,000
32.5%	\$45,001 to \$120,000
37%	\$120,001 to \$180,000
45%	\$180,001+
LITO	Up to \$700
LMITO	Up to \$1,080 for 2020-21

Rates	Personal income tax thresholds 2024-25 onwards
Nil	\$0 to \$18,200
19%	\$18,201 to \$45,000
30%	\$45,001 to \$200,000
45%	\$200,001+
LITO	Up to \$700

Increasing the Medicare levy low-income thresholds

The Government has increased the Medicare levy low-income thresholds for singles, families, and seniors and pensioners from the 2019-20 income year:

- The threshold for singles has increased from \$22,398 to \$22,801
- The family threshold has increased from \$37,794 to \$38,474
- For single seniors and pensioners, the threshold has increased from \$35,418 to \$36,056
- The family threshold for seniors and pensioners has increased from \$49,304 to \$50,191

For each dependent child or student, the family income thresholds increase by a further \$3,533 instead of the previous amount of \$3,471.

Business taxation



Temporary full expensing of eligible capital assets

Businesses with aggregated annual turnover of less than \$5 billion 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 small and medium sized businesses (with aggregated annual turnover of less than \$50 million), full expensing also applies to second-hand assets.

Accelerated depreciation

A time limited investment incentive temporarily allows businesses with aggregated turnover of less than \$500 million to deduct capital allowances for eligible depreciating assets at an accelerated rate.

Generally, to be eligible to apply the accelerated rate of deduction, the depreciating asset must satisfy a number of conditions, including that the asset:

- Be new and not previously held by another entity (other than as trading stock or for testing and trialling purposes)
- Be first held on or after 12 March 2020
- Be first used or first installed ready for use for a taxable purpose on or after 12 March 2020 until 30 June 2021
- Not be an asset to which an entity has applied the instant asset write-off rules or depreciation deductions

Eligible businesses with a turnover of less than \$500 million can deduct an additional 50 per cent of the asset cost in the year of purchase.

Temporary loss carry-back to support cash flow

The Government will allow eligible companies to carry back tax losses from the 2019-20, 2020-21- or 2021-22-income years to offset previously taxed profits in 2018-19 or later income years.

Corporate tax entities with an aggregated turnover of less than \$5 billion can apply tax losses against taxed profits in a previous year, generating a refundable tax offset in the year in which the loss is made. The tax refund would be limited by requiring that the amount carried back is not more than the earlier taxed profits and that the carry back does not generate a franking account deficit.

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

Superannuation



Improve outcomes for superannuation fund members

Measures to be introduced include:

- The Australian Taxation Office will develop systems so that new employees will be able to select a superannuation product from a table of MySuper products through the YourSuper portal, a new online comparison tool that will be built to assist individuals to compare and select superannuation products
- An existing superannuation account will be 'stapled' to a member to avoid the creation of a new account when that person changes their employment
- From July 2021 the Australian Prudential Regulation Authority will conduct benchmarking tests on the net investment performance of MySuper products, with products that have underperformed over two consecutive annual tests prohibited from receiving new members until a further annual test that shows they are no longer underperforming. Non-MySuper accumulation products where the decisions of the trustee determine member outcomes will be added from 1 July 2022
- Strengthening obligations on superannuation trustees with a view to ensuring their actions are consistent with members' retirement savings being maximised.

Increasing the maximum number of members in SMSFs and small APRA funds to six

The start date for this measure has been revised from 1 July 2019 to the date of Royal Assent of the enabling legislation.

Social security



Exempting granny flat arrangements from capital gains tax

The Government will provide a targeted capital gains tax (CGT) exemption for granny flat arrangements where there is a formal written agreement. This will apply to arrangements with older Australians or those with a disability and will have effect from the first income year after the date of Royal Assent of the enabling legislation.

Additional support payments

There will be two separate \$250 economic support payments provided, made from November 2020 and early 2021 to eligible recipients of the following payments and health care card holders:

- Age Pension
- Disability Support Pension
- Carer Payment
- Family Tax Benefit, including Double Orphan Pension (not in receipt of a primary income support payment)
- Carer Allowance (not in receipt of a primary income support payment)
- 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 are exempt from taxation and will not count as income support for the purposes of any income support payment.

Youth Allowance and ABSTUDY independence

For those applying for Youth Allowance and ABSTUDY from 1 January 2021, the six-month period between 25 March 2020 and 24 September 2020 will automatically be recognised as contributing to an applicant's independence test, regardless of whether they meet employment requirements.

Job support and creation



FBT exemption to support retraining and reskilling

The Government will introduce an exemption from the 47 per cent fringe benefits tax (FBT) for employer-provided retraining and reskilling benefits provided to redundant, or soon-to-be-redundant employees where the benefits may not be related to their current employment.

Supporting apprentices and trainees

The “Supporting Apprentices and Trainees” (SAT) wage subsidy will reimburse eligible businesses up to 50 per cent of an apprentice or trainee's wages. Subsidies are capped at \$7,000 per quarter, per eligible apprentice or trainee.

- From 1 January 2020 to 30 June 2020, small businesses (of less than 20 employees) could claim the SAT wage subsidy for apprentices or trainees who had been in-training with the business as at 1 March 2020.
- From 1 July 2020 to 31 March 2021, small and medium-sized businesses (of less than 200 employees) can claim the SAT wage subsidy for apprentices or trainees who have been in-training with the business as at 1 July 2020.

Boosting apprenticeships wage subsidy

From 5 October 2020 to 30 September 2021, businesses of any size can claim the new Boosting Apprentices Wage Subsidy for new apprentices or trainees who commence during this period.

Eligible businesses will be reimbursed up to 50 per cent 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 COVID-19 related downturn.

JobKeeper Payment extension

The Government announced changes to the JobKeeper Payment on 7 August 2020 which included the following measures:

- The employment reference date for assessing an employee's eligibility for the JobKeeper Payment was changed from 1 March 2020 to 1 July 2020, with effect from 3 August 2020. This means that employees who were hired during this period may now be eligible for the JobKeeper Payment (subject to other relevant eligibility criteria).
- To be eligible for JobKeeper after 28 September 2020, businesses and not-for-profits are now only required to demonstrate that their actual turnover was sufficiently affected in the previous quarter (rather than in every quarter from June 2020 onwards) to be eligible for JobKeeper Payment in the December 2020 and March 2021 quarters.

JobMaker Hiring Credit

The JobMaker Hiring Credit will be available to eligible employers over a 12-month period from 7 October 2020 for each additional new job they create for an eligible employee in this period.

Eligible employers will receive \$200 per week if they hire an eligible employee aged 16 to 29 years or \$100 per week if they hire an eligible employee aged 30 to 35 years, provided the employer can demonstrate that the new employee will increase overall employee headcount. The JobMaker Hiring Credit will be available for up to 12 months from the date of employment of the eligible employee with a maximum amount of \$10,400 per additional new position created.

To be eligible, the employee will need to have worked for 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.

Miscellaneous



Increase the small business entity turnover threshold

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 ten 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 per cent 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, and settle excise duty and excise-equivalent customs duty monthly on eligible goods under the small business entity concession. Eligible businesses will also have a two-year amendment period apply to income tax assessments for income years starting from 1 July 2021, excluding entities that have significant international tax dealings or particularly complex affairs

The eligibility turnover thresholds for other small business tax concessions will remain at their current levels.

Small business and responsible lending

Reduce regulatory burden with a view to delivering an improved flow of credit and resolution for distressed business. These include:

- Introducing a new process to enable eligible incorporated small businesses in financial distress to restructure their own affairs
- Simplifying the liquidation process for eligible incorporated small businesses
- Support for the insolvency sector
- Introducing a standard licensing regime for debt management firms who represent consumers in dispute resolution processes with credit providers
- Removing duplication between the responsible lending obligations contained in the National Consumer Credit Protection Act 2009 and the Australian Prudential Regulation Authority (APRA) standards and guidance for authorised deposit-taking institutions (ADIs) and establishing a similar new credit framework for non-ADIs
- Enhancing the regulation of Small Amount Credit Contracts and Consumer Leases to ensure that the most vulnerable consumers are protected

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Freecall 1800 888 223

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