TAX TALKS

Australia's Tax News Podcast - The Podcast for Australian Tax Professionals

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UPDATE 23 | The Budget

The budget for 2020/21 is huge and will cost us a lot of money.

The Budget

Hopefully it will help us to recover from the current recession triggered by COVID-19.

Andrew Henshaw of Velocity Legal in Melbourne will walk you through the details in this episode.

Here is a short summary of what we learned but please listen in as Andrew explains all this much better than we ever could.

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The Budget

The 2020/21 budget included a long list of tax concessions, infrastructure spending and other initiatives. In this episode we focus on the tax consequences of this budget. There are basically ten main changes affecting us as tax agents and accountants – four affecting personal tax and six affecting business tax.

Personal tax # 1 – Changes to Personal Income Tax Rates

The second stage of the tax rate cuts – originally earmarked to start on 1 Jyly 2022 – has been brought forward to retrospectively apply from 1 July 2020. So adjust your PAYG withholding and pay less tax straight away.

From 1 July 2020, the upper limit of the income tax bracket of 19% has increased from $37,000 to $45,000. So you pay – just as before – zero tax on the first $18,200 of assessable income, but now only 19% all the way up to $45,000. And the 32.5% bracket is now from $45,001 to $120,000 (as opposed to the $90,000 previously). From $120,001 upwords the current tax rates of 37% and 45% apply as before.

So taxpayers with assessable income over $120,000 will receive the full benefit of these stage 2 tax cuts.

Personal tax # 2 – Deductibility of certain training expenses

Until now there was a tight cap on what you could or couldn’t claim as training expenses within your business. Anything else hit you with FBT or a non-deductible private expense. But this has now been widened to include additional education and training expenses to upskill or re-skill if you otherwise faced redundancy.

Personal tax # 3 – Arrangements for Granny Flats

Before this budget building a granny flat easily affected Centrelink entitlements, main residence exemptions and capital gains tax. The rules around this have been loosened to make it easier to build granny flats for elderly relatives.

Personal tax # 4 – Low Income Tax Offset

The low income tax offset (LITO) has been increased from $445 to $700. The Low to Middle Income Offset (LMITO) stays the same ranging from $225 to $1,080 and is currently earmarked to phase out next year.

Business # 1 – Jobmaker Hiring Credit

If you hire a new employee at the age of 16 to 35 who has been on Jobseeker, Youth Allowance or Parenting Payments, then you receive a JokMaker hiring credit of $100 or $200 per week depending on the age of the employee.

Business # 2 – Unlimited Instant Asset Write-Off

The instant asset write-off has no longer a cap. So you can now buy equipment for your business and write off the entire purchase price without any caps, as long as your annual turnover does not exceed $5b.

Business # 3 – Loss Carry Back

Until now you could only carry forward losses. So you couldn’t claim tax back you had paid in past profitable years. But now you can to some extent. Companies can now carry back losses from 2020/21 and 2021/22 to 2018/19 and 2020/21.

So if the instant asset write-off creates a loss in an otherwise profitable company, you can claim back some or all of the tax you incurred since 1 July 2018.

But of course all this is only a timing difference. In the end all company profits are taxed at shareholder level. And those shareholders will now receive less franking credits, ultimately paying the tax the company didn’t pay.

Business # 4 – Increase to Small business Turnover Threshold

Let’s start with what didn’t change. The small business turnover threshold for the small business CGT concessions stays at $2m. The small business turnover threshold for the small business restructure stays at $10m.

What did change is that the small business threshold for everything else has now increased to $50m – for example the simplified stock methods, the deduction of start up expenses, certain FBT exemptions.

But that is relatively insignificant for most and so will only cost the government about $105m.

Business # 5 – FBT Exemption for Parking and Multiple Portable Electronic Devices

Employee parking and receiving multiple portable electronic devices now receives an FBT exemption. And that makes sense since you don’t want essential workers taking public transport to work or not being able to work from home.

But doesn’t make sense is that these exemptions only come in with the next FBT year, so from 1 April 2021. So given this time limit, this measure is pretty ineffective. By 1 April next year we are hopefully close to a vaccine. But these words might come to bite us.

Business # 6 – Tax residency of companies

And then a last major change is a complete surprise. Highly unusual to have a matter like this sorted out in a budget.

Do you remember Bywater and Mr Vanda de Gould? Do you remember how as a result of this federal court case the location of the central management and control became the all or nothing deciding factor. It didn't matter whether you actually had core commercial activities in Australia.

Well, now it does. A foreign company is now only a tax resident of Australia if they have core commercial activities in Australia. So the location of the company's central management and control no longer matters.

That is a huge change and great news for international companies.

So these are ten changes coming out of the federal budget that will affect us most as tax agents and accountants. We didn't cover the change to the R & D tax incentive, but will leave that for a future episode.

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