

Lombardi Partners Bulletin

Federal Budget 2020

On 6 October 2020, the Federal Treasurer, Josh Frydenburg, released the 2020-21 Budget. Normally scheduled for the second quarter of the calendar year, the Budget was deferred this year in order to assess the economic impact of COVID-19 and respond accordingly.

We outline the significant announcements below.

Personal Taxation

The Government announced that Stage 2 of the Personal Income Tax Plan (2019-20 Budget) will be brought forward from 1 July 2022 to 1 July 2020, which will provide personal income tax relief predominantly to low- and middle-income earners.

The table below summarises the tax rate changes and proposed future changes, which remain scheduled for 2024-25.

2020-21			Proposed Changes 2024-25	
Tax Rate	Income Thresholds (prior to Budget)	Income Thresholds (changes brought forward from 2022-23)	Tax Rate	Income Thresholds
0%	\$0 - \$18,200	\$0 - \$18,200	0%	\$0 - \$18,200
19%	\$18,201 - \$37,000	\$18,201 - \$45,000	19%	\$18,201 - \$45,000
32.5%	\$37,001 - \$90,000	\$45,001 - \$120,000	30%	\$45,001 - \$200,000
37%	\$90,001 - \$180,000	\$120,001 - \$180,000	37%	Not Applicable
45%	Over \$180,000	Over \$180,000	45%	Over \$200,000

In addition, the low and middle income tax offset will be retained in 2020-21. This reduces an individual's tax liability by a maximum of \$1,080 dependent on total taxable income and tax payable.

Business Taxation

Temporary Full Expensing and Instant Asset Write-Off Extension

Following a fivefold increase to the Instant Asset Write-Off threshold in March 2020, the Government announced further measures to encourage investment. This includes Full Expensing, a 100% deduction for eligible depreciating assets of any cost.

The tables below set out the key information relating to the Instant Asset Write-Off and Full Expensing initiatives, including relevant dates and thresholds.

The information in this bulletin is general in nature and should not be considered to be advice. Clients should not act solely on the basis of material contained in this bulletin and we recommend formal advice be sought in relation to the issues contained in this document and their application to you and your individual circumstances.

Table 2: Instant Asset Write-Off – Assets acquired from 12 March 2020 until 7.30pm on 6 October 2020				
Size of Business	Turnover Threshold	Asset Cost Threshold	Type of Asset	Date of Installation or First Use
Small and medium	Up to \$50 million	\$150,000	New or second-hand assets	No later than 30 June 2021
Large	Between \$50 million and \$500 million	\$150,000	New assets only	No later than 31 December 2020

Small and medium businesses have been granted an additional six months, from 31 December 2020 to 30 June 2021, to first use or install ready for use any assets acquired under the enhanced instant asset write-off. This extension does not apply to large businesses.

Table 3: Full Expensing – Assets acquired from 7.30pm on 6 October 2020 until 30 June 2022				
Size of Business	Turnover Threshold	Asset Cost Threshold	Type of Asset	Date of Installation or First Use
Small and medium	Up to \$50 million	Not applicable	New or second-hand assets	No later than 30 June 2022
Large	Between \$50 million and \$500 million	Not applicable	New assets only	No later than 30 June 2022

Businesses will also be able to deduct the full cost of asset improvements made from 6 October 2020 to 30 June 2022, regardless of when the original asset was purchased.

Simplified Depreciation Pool

Small businesses (turnover up to \$10 million) will be able to deduct the balance of their simplified depreciation pool at the end of the income year while Full Expensing applies.

Temporary Loss Carry-Back

The Government announced a temporary re-introduction of a loss carry-back mechanism for corporate tax entities that have paid tax in previous financial years but generate tax losses, in order to provide tax refunds.

- Available to businesses with turnover up to \$5 billion.
- Only available in respect of taxable losses from 2019-20, 2020-21, and 2021-22, which can only be carried back against taxable income from 2018-19, 2019-20 and 2020-21.
- The tax refund can be claimed when lodging the 2021 and 2022 tax returns, therefore in practice there will be no benefit until July 2021 at the earliest.
- The loss carried back cannot exceed the earlier taxable income.
- The carry-back must not generate a franking account deficit, thereby potentially limiting the relief available to companies with outstanding tax liabilities and/or with minimal retained profits.

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Victorian COVID-19 Grants

The Government announced that Victorian business support grants provided to small and medium businesses will be treated as non-assessable, non-exempt income, thereby generating no tax liability. It applies to grants announced from 13 September 2020 and payments made from 13 September 2020 to 30 June 2021.

Expanded Access to Small Business Tax Concessions

The Government announced that businesses with turnover up to \$50 million will have access to 10 small business concessions, currently available only to small businesses (turnover up to \$10 million). These include:

- From 1 July 2021, immediate deduction for certain start up and prepaid expenses.
- From 1 April 2021, FBT exemption for car parking benefits and multiple work-related portable electronic devices.
- From 1 July 2021, two year amendment period for income tax assessments and simplified accounting method determination for GST purposes.

Fringe Benefits Tax

The Government announced that from 2 October 2020 employer-provided retraining costs will be exempt from FBT, encouraging businesses to help their workers to transition into new roles within or outside of the business.

There will also be less red tape regarding record-keeping by employers and employees, but this will not take effect until 1 April after the legislation achieves Royal Assent.

Research & Development

The Government announced further enhancements to the proposed changes to the R&D tax incentive, but these changes have been deferred to 1 July 2021.

Small entities (turnover of up to \$20 million) will access the refundable R&D tax offset at a premium of 18.5% above the applicable corporation tax rate. There will be no cap on annual cash refunds.

There will be two intensity tiers for large entities (turnover of \$20 million or more). The tier will determine the value of the non-refundable R&D tax offset.

- Tier 1 (R&D expenditure is between 0% and 2% of total expenditure): premium of 8.5% above the applicable corporation tax rate.
- Tier 2 (R&D expenditure is more than 2% of total expenditure): premium of 16.5% above the applicable corporation tax rate.

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Superannuation

One of the key benefits of the newly announced *Your Future, Your Super* package is the automatic transfer of existing superannuation accounts when individuals change employers. This applies from 1 July 2021.

There will also be an online tool available allowing easier comparison of different super funds.

As these measures pass into legislation or further information is made available by the Government, we will provide additional updates and clarifications. In the meantime, if you would like to discuss how these measures may apply to you, please contact us.



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