

BUDGET 2020



What's in it for my business?

The Treasurer has handed down his second Budget amid challenging economic conditions. It is perhaps no surprise that in a Budget "all about jobs" that there would be plenty of sweeteners for businesses.

Some of the more salient measures announced include the extension of small business tax concessions, outright deductions of capital assets until 30 June 2022, loss carry-back, and clarification of the corporate residency test.

Extension of small business tax concessions

A range of tax concessions currently available to small businesses will be extended to medium sized businesses which includes businesses with an aggregated annual turnover between \$10m and \$50m. This extension will happen in 3 phases, with eligible businesses being able to immediately deduct certain start-up expenses and prepaid expenditure in phase 1 starting on 1 July 2020.

Phase 2 will start on 1 April 2021 and include FBT exemptions on car parking and multiple work-related portable electronic devices.

Phase 3 of the extension will occur from 1 July 2021 and will allow eligible businesses to:

- use simplified trading stock rules,
- remit PAYG instalments based on GDP adjusted notional tax,
- reduce the time limit for the ATO to amend income tax assessments to 2 years, and
- expand the simplified accounting method determination for GST purposes.

All other small business tax concessions will retain the current eligibility turnover thresholds.

Outright deductions of capital assets

The government will be allowing all businesses with an aggregate turnover of less than \$5bn 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.

For small to medium sized businesses, a full deduction will apply to new and second-hand assets as well as cost of improvements to existing eligible assets.

There is a limit for larger businesses on the deduction of second-hand assets.

Loss carry-back

Companies with aggregated turnover of less than \$5bn will be able to carry back tax losses from the 2019-20, 2020-21 or 2021-22 income years to offset previously tax profits in the 2018-19 or later income years.

The tax losses applied against tax profits in a previous year will generate a refundable tax offset in the year in which the loss is made, however, the refund will be limited to the amount of earlier tax profits.

The tax refund will be available by election for eligible businesses when they lodge their 2020-21 and 2021-22 tax returns. Companies do not have to use the loss carry-back and can choose to carry losses forward as normal.

R&D tax incentive

Current legislation seeking to make contentious changes to the R&D tax incentive will now be further amended.

For companies with a turnover of less than \$20 million, there will be no cap on the amount of refundable R&D tax offset a company can claim.

The refundable R&D tax offset for small companies will also be set at 18.5 percentage points above the claimant's company tax rate, up from 13.5 per cent from the current bill.

Larger companies with an annual turnover of \$20 million or more will face a simplified two-tier intensity approach.

Clarification of corporate residency test

The government has flagged that it will amend the law to provide that a company that is incorporated offshore will be treated as an Australian tax resident if it has significant economic connection with Australia. This test will likely be satisfied where both the company's core commercial activities are undertaken in Australia and its central management and control is in Australia.

What's in it for me?

The 2020 Budget has been handed down and as expected, the government has brought forward the previously legislated stage 2 tax cuts from 1 July 2022 to 1 July 2020.

Other measures include the bringing forward and retaining various low-income offsets, targeted CGT exemption for granny flats, and cash payments for some income support recipients.

Personal tax cuts

According to the Treasurer, stage 2 tax cuts will see more than 11m taxpayers get an immediate tax cut backdated to 1 July 2020.

With Labor indicating that they will support the changes, from 1 July 2020, the top threshold of the 19% personal income tax bracket will increase from \$37,000 to \$45,000.

In addition, the top threshold of the 32.5% tax bracket will increase from \$90,000 to \$120,000. The government projects that individuals are expected to receive tax relief of \$2,000 or more for the 2020-21 income year compared with 2017-18 income years.

Low-income offsets

As a consequence of bringing forward the tax cuts, a new low-income tax offset (LITO) will also be brought forward to start from the 2020-21 income year.

The new LITO was intended to replace the existing low income and low and middle income tax offsets from 2022-23.

Although the existing LITO is scrapped, the low and middle income offset (LMITO) will be retained for 2020-21.

The maximum amount of the new LITO is \$700. The LITO will be withdrawn at a rate of 5 cents per dollar between taxable incomes of \$37,500 and \$45,000 and then at a rate of 1.5 cents per dollar between taxable incomes of \$45,000 and \$66,667.

The amount of the LMITO is \$255 for taxpayers with a taxable income of \$37,000 or less. Between \$37,000 and \$48,000, the value of LMITO increases at a rate of 7.5 cents per dollar to the maximum amount of \$1,080.

Taxpayers with taxable incomes from \$48,000 to \$90,000 are eligible for the maximum LMITO of \$1,080. From \$90,001 to \$126,000, LMITO phases out at a rate of 3 cents per dollar.

Targeted CGT exemption for granny flats

The Government will put in place a "targeted" CGT exemption for granny flat arrangements from 1 July 2021 whereby CGT will not apply to the creation, variation or termination of a granny flat arrangement providing accommodation where there is a formal written agreement in place.

However, it will only apply to arrangements entered into due to "family relationships or other personal ties" and the arrangement is to provide accommodation for "older Australians or those with a disability".

Cash payments for some income support recipients

Two \$250 economic support payments will be made to eligible income support recipients including those on the age pension, disability support pension, carer payment, FTB, and various other concession card holders (eg pensioner concession card, Commonwealth Senior Health card holders, and eligible veterans' affairs concession cards).

The payments will be made in November 2020 and early 2021.

CONTACT

If you have any queries, please feel free to contact us.

Adam Mallabone
adam.mallabone@dlkadvisory.com.au

Ben Melin
ben.melin@dlkadvisory.com.au

David Lilja
david.lilja@dlkadvisory.com.au

DLK Advisory
Level 10, 99 Queen Street, Melbourne VIC 3000
T: +61 3 9923 1222
www.dlkadvisory.com.au