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Federal Budget Update 2020

INTRODUCTION

On 6 October 2020, Treasurer Josh Frydenberg handed down a historic Federal Budget.

This year has been unprecedented, with Australia and the rest of the world focusing their health and economic attention on managing the Coronavirus pandemic – COVID-19.

With the Government committing tremendous resources and financial support to its response to the pandemic, it is only expected that the Government's response would result in a significant impact on the economy and the state of the nation's finances.

This year's Budget is all about stimulating the economy by creating jobs, keeping Australians in the work force, and encouraging Australian's to spend more money.

THE ECONOMY AND FISCAL OUTLOOK

The consequences of the economic downturn associated with COVID-19 has been devastating on the lives and employment prospects of individuals, and businesses throughout Australia. Very few have been immune from its impact in one way or another.

For the first time in almost 30 years, Australia has entered a recession.

Some of the key statistics coming from the Budget include:

- The underlying deficit for 2020-21 is forecast to be \$213.7b
- This is expected to fall to \$66.9b by 2023-24
- Gross debt is projected to be 44.8% of GDP by the end of 2020-21 (\$872b)
- Then unemployment rate is estimated to peak at around 7.25%, returning to 5.5% by 2023-24
- The Consumer Price Index is expected to retain under 2% per annum until mid-2022.

INFRASTRUCTURE

Transport infrastructure around Australia is one of the big winners from this year's Budget.

Whether it is building an inner-city bypass in Newcastle, constructing overtaking lanes on the Princes Highway in South Australia, or upgrading the Shepparton and Warrnambool rail lines, expect to see constructions crews out and about for some considerable time to come.

The Government has allocated new investment of \$7.5b in national transport infrastructure designed to not only deliver safer roads and improved transport infrastructure, but to create thousands of new jobs as part of the government's economic recovery plan.

EMPLOYMENT

Apprentices and trainees

The existing \$2.8b apprentice and trainees wage subsidy will be extended from 5 October 2020 with an additional investment of \$1.2b to enable businesses to employ an additional 100,000 apprentices or trainees. This investment will subsidise 50% of the wages paid by employers, to a maximum of \$7,000 per quarter. The subsidy will apply to new apprentices and trainees engaged from 30 September 2020, up until the 100,000 cap is reached.

Fringe benefits tax exemption

Under present arrangements, FBT is payable when an employer provides training to employees that is not sufficiently connected with the employee's current employment. The Government plans to exempt employer-provided retraining and reskilling from FBT for redundant or soon to be redundant employees who are redeployed into different roles.

JobMaker Hiring Credit

The \$4b JobMaker Hiring Credit will be payable for up to 12 months for each new job and is available from 7 October 2020. It is available to employers that employ eligible employees aged 16 to 35.

The Credit is paid to employers quarterly at a rate of \$200 per week for employees aged 16 to 29, and \$100 per week for those aged between 30 and 35. To be eligible, an employee is required to work at least 20 hours each week.

Employers will have to demonstrate an increase in their overall employee headcount and payroll to be eligible. This scheme is estimated to have the potential to support 450,000 young people in work.

TAXATION

Tax cuts

In its 2019 Budget, the Government announced a range of tax cuts that would take effect in later years. As part of its commitment to responding to the coronavirus, the Government has announced plans to bring forward tax cuts planned for 1 July 2022, backdating them to 1 July 2020.

The changes, expected to inject \$12b into take-home pay include:

- Increasing the upper threshold for the 19% tax rate from \$37,000 to \$45,000
- Increasing the threshold for the 32.5% tax bracket from \$90,000 to \$120,000
- The Low-Income Tax Offset (LITO) is to increase from \$445 to \$700

The tax cuts will result in immediate tax savings across a wide range of incomes.



These changes are illustrated in the following table (which excludes the Medicare Levy).

Rate	Current (2019 to 2022)	Proposed (2021-2024)
0%	0 – \$18,200	0 – \$18,200
19%	\$18,201 – \$37,000	0 – \$18,200
32.5%	\$37,001 – \$90,000	\$45,001 – \$120,000
37%	\$90,001 – \$180,000	\$120,001 – \$180,000
45%	\$180,001+	\$180,001+

[Source: NTAA 2020/21 Federal Budget]

Capital Gains Tax (CGT) – granny flats

From 1 July 2021 the Government plans to exempt granny flats from capital gains tax. Under the measure, capital gains tax will not apply to the creation, variation, or termination of a formal granny flat arrangement that provides accommodation to older Australians or people with disabilities.

This concession will only apply to arrangements entered because of family relationship or other personal ties and will not be available to broader commercial rental arrangements.

Small business tax concessions

Further tax relief and a reduction in red tape is to be offered to businesses with an aggregated annual turnover of between \$10m and \$50m. These businesses will have access to several tax concessions – available to small businesses.

The expanded concessions will be applied in three phases from 1 July 2020, 1 April 2021, and from 1 July 2021. From 1 July 2020, eligible businesses will be able to immediately deduct certain start-up and prepaid expenses.

Business with aggregated annual turnover of up to \$5b will be able to deduct the full cost of eligible depreciable assets of any value in the year they are installed and will be available from 6 October 2020 to 30 June 2022.

In April next year eligible businesses will be exempt from fringe benefits tax on car parking and multiple work related portable electronic devices (phones, laptop etc.) provided to employees.

Simplified trading stock rules and remittance of PAYG instalments will apply to eligible businesses and a simplified accounting method of GST will be expanded from 1 July 2021.

Offsetting tax losses

Businesses with a turnover of up to \$5b will be able to offset losses against profits on which tax has been paid and generate a tax refund. It is estimated that the loss carry-back will be available to around 1 million companies. Losses incurred in 2020-21 can be carried back against profits made in 2018-19 and 2019-20.



Insolvency reforms to support small business

The Government will implement certain insolvency reforms, effective from 1 January 2021 (subject to the passing of legislation) to support small business, including the following:

- The introduction of a new streamlined process to enable eligible incorporated small businesses (broadly, those with liabilities of less than \$1 million) in financial distress to restructure their debt.
- Simplifying the liquidation process for eligible incorporated small businesses (to allow faster and lower-cost liquidations, increasing returns for creditors and employees).
- Support for the insolvency sector (to ensure it can respond effectively to increased demand and to the needs of small business).

Supporting the mental health of Australians in small business - COVID-19 response package

The Government will provide \$7 million in 2020/21 to support the mental health and financial wellbeing of small businesses impacted by COVID-19, including:

- \$4.3 million to provide free, accessible and tailored support for small business owners by expanding Beyond Blue's NewAccess program in partnership with the Australian Small Business and Family Enterprise Ombudsman; and
- \$2.2 million to expand a free accredited professional development program that builds the mental health literacy of trusted business advisers so that they can better support small business owners in times of distress, delivered through Deakin University.

Victorian COVID-19 business support grants made non-assessable, non-exempt income

The Victorian Government's business support grants as announced on 13 September 2020 for small and medium businesses will be made non-assessable, non-exempt (NANE) income for tax purposes.

This concession will be extended to all states and territories on an application basis.

To be eligible, grants will have to be announced on or after 13 September 2020, and payments made between 13 September 2020 and 30 June 2021. A new power will enable the government to make regulations to ensure that specified state and territory COVID-19 business support grant payments are NANE income.

HOMEBUYERS

The Government's First Home Loan Deposit Scheme assists people looking to build or purchase a newly built first home with as little as a 5% deposit. The Government, through the National Housing Finance and Investment Corporation provides participating lenders with a guarantee of up to 15% of the value of the property purchased. From 6 October 2020, the scheme is to be extended to a further 10,000 first home buyers.

The scheme may be used in conjunction with other state and territory grants and concessions available to first home buyers. This extension is in addition to the 20,000 first home buyers that have already benefited from the Scheme.



SUPERANNUATION MEASURES

The Government has announced reforms to the superannuation system, particularly for members of MySuper accounts. Superannuation funds will be required meet an annual objective performance test. Where a fund underperforms for two consecutive years, they will be unable to accept new members until they can demonstrate they no longer under perform.

This will also extend to non-MySuper account where the trustees of the fund determine the member outcomes (i.e. make the investment decisions). Measures will also be introduced to reduce the number of superannuation funds a person may have, particularly when changing jobs.

New superannuation fund members will be able to select a superannuation fund from a table of MySuper products through a YourSuper portal to be developed by the Australian Taxation Office.

HEALTH

A range of measures have been announced designed to ensure Australians continue to get access to the health care and support they need to weather the pandemic. Included in the Budget are funds to support the Government's commitment to ensuring the supply and production agreements for access to a safe and effective COVID-19 vaccine once available.

SOCIAL SECURITY AND AGED CARE MEASURES

Social security

The Budget includes an announcement of the payment of two additional one-off payments of \$250 each to eligible recipients of the Age Pension, Disability Support Pension, Carers Payment, Family Tax Benefit, Carers Allowance, Pensioner Health Card, Commonwealth Seniors Health Card and eligible Veterans Affairs payment recipients and concession card holders. The first payment will be made in November 2020 and the second in early 2021.

Aged care

\$2b is to be made available to support older Australians accessing aged care services including the creation of an additional 23,000 home care packages. Additional funds have also been allocated to assist residential aged care providers with the costs of operating during the pandemic.

[Source: CPA Australia: Federal Budget 2020 Report; National Tax & Accountants' Association Ltd: 2020 Federal Budget Summary; Centrepoin Alliance: Federal Budget Update 2020/21]

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