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JUNE 2021

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Federal Budget 2021-2022

The Government has decided not to go down the austerity path, which will be a relief for many taxpayers and businesses.

Rather, the Government has decided to put its foot on the accelerator with the hope that the growth in economy over a long period of time will help to pay down the debt that has been central to the Government's response to COVID-19.

In the summary, the major tax-related measures announced in the Budget included:

- **Personal tax rates –** no changes were made to personal tax rates, the Government having already brought the Stage 2 tax rates to July 2020. The Stage 3 personal income tax cuts remain unchanged and will commence in 2024-25 as already legislated.
- **LMITO retained for 2021-22 -** The Government will retain the low and middle income tax offset for the 2021-22 income year. The LMITO provides a reduction in tax of up to $1,080.
- **Temporary full expensing extended –** the Government will extend the 2020-21 temporary full expensing measures for 12 months until 30 June 2023. This will allow eligible business with aggregated annual turnover or total income of less than $5 billion to deduct the full cost of eligible depreciable assets of any value, acquired from 7:30 AEDT on 6 October 2020 and first used or installed for use by 30 June 2023.
- **Loss carry-back extended –** the years in respect of which an eligible company (aggregated annual turnover of up to $5 billion) can currently carry back a tax loss (2019-2020, 2020-21, and 2021-22) will be extended to include the 2022-23 income year.
- **Individual residency test reformed –** the Government will replace the existing tests for the tax residency of individuals with a primary "bright line" test under which a person who is physically present in Australia for 183 days or more in any income year will be an Australian tax resident.

- **Employee share schemes –** the Government will remove the cessation of employment as a taxing point for the tax-deferred employee share schemes.
- **ATO debt recovery-** the AAT will be given the power to pause or modify ATO debt recovery action in relation to disputed debts of small businesses.
- **Self-education expenses-** $250 threshold to be removed.

SUPERANNUATION AND RELATED MEASURES

The key superannuation and related measures announced in the budget include:

- **Superannuation contributions work test-** to be repealed from 1 July 2022 for voluntary non-concessional and salary sacrificed contributions for those under age 75. However, the work test will still apply for personal deductible contributions by those aged 67-74.
- **SMSF residency rules-** to be relaxed by extending the central management and control test safe harbour from two to five years, and removing the active member test for both SMSF's and small APRA funds.
- **Conversations of legacy income streams-** individuals will be permitted to exit certain legacy retirement income stream products (excluding flexi-pensions or lifetime products in APRA-funds or public sector schemes), together with any associated reserves, for a two-year period. Any commuted reserves will not be counted towards an individuals' concession contribution cap. Instead, they will be taxed as an assessable contribution for the fund.
- **Super Guarantee $450 per month threshold –** to be removed from July 2022.
- **Downsizer contributions –** eligibility age to be lowered from 65 to 60.
- **First Home Super Scheme –** to be extended for withdrawals up to $50,000, plus some technical changes for tax and administration errors in applications.
- **Victims of domestic violence –** the Government will not proceed with its previous proposal to extend the early release of super to victims of family and domestic violence.
- **Pension Loans Scheme –** will be expanded to allow access up to two lump sums in any 12-month period (up to a total of 50% of the maximum annual Age Pension); together with a Government guarantee that "no negative equity" will apply.

At the same time, the Budget did not contain any change to the legislated Super Guarantee rate increase from 9.5% to 10% for 2021-22.

As previously announced, the budget confirmed:

- **30% Digital Games Tax Offset –** for eligible businesses that spend a minimum of $500,000 on qualifying Australian games expenditure (excluding gambling) from 1 July 2022.
- **Intangible assets depreciation-** option to self assess effective life for certain intangible assets (e.g., intellectual property and in-house software).
- **Brewers and distillers –** the excise refund cap for small brewers and distillers will increase to $350,000 from 1 July 2021.
- **Venture capital –** a review of the venture capital tax concessions will be undertaken in 2021.
- **Child care –** increased subsidies from 1 July 2022.

HOUSING

- Government to help another 10,000 first-home buyers build a new home with a 5% deposit.
- Some 10,000 single parents to purchase a home with a 2% deposit.
- Increasing the amount that can be released under the First Home Super Saver Scheme to $50,000 from $30,000.
- To allow those aged over 60 to contribute up to $300,000 to their superannuation fund if they downsize their home, freeing up more housing stock for younger families.

BUSINESS

- Budget provides a further $2.1 billion in targeted support for aviation, tourism, arts and international education providers.
- Tax relief for around 1,000 small brewers and distillers.
- Double its commitment to the "Job Trainer" fund to help create new apprenticeships and traineeships.
- Investing $1.2 billion to build digital infrastructure, skills and cyber security.
- Launching a new "patent box" under which income earned from new patents developed in Australia will be taxed at a concessional 17% rate. The patent box will apply to the medical and biotech sectors.

Temporary full expensing: extended to 30 June 2023

The Government will extend the temporary full expensing measures until 30 June 2023. It was otherwise due to finish on 30 June 2022.

Other than the extended date, all other elements of temporary full expensing will remain unchanged. The measure allows eligible businesses to deduct the full cost of eligible depreciating assets, as well as the full amount of the second element of cost. A business qualifies for temporary full expensing if it is a small business (annual aggregated turnover under $10 million) or has an annual aggregated turnover under $5 billion. Annual aggregated turnover is generally worked out on the same basis as for small businesses, except the threshold is $5 billion instead of $10 million.

Assets must be acquired from 7:30pm AEDT on 6 October 2020, and first used or installed ready for use by 30 June 2023.

Loss carry-back extended by one year

Under the temporary, COVID driven, restoration of the loss carry back provisions announced in the 2020- 21 Budget, an eligible company (aggregated annual turnover of up to $5 billion) could carry back a tax loss for the 2019-20, 2020-21- or 2021-22-income years to offset tax paid in the 2018-19 or later income years.

The Government will extend the eligible tax loss years to include the 2022-23 income year. Tax refunds resulting from carry back will be available to companies when they lodge their 2020-21, 2021-22 and now 2022-23 tax returns.

This will help increase cash flow for businesses in future years and support companies that were profitable and were paying tax but found themselves in a loss position as a result of the COVID-19 pandemic. Temporary loss carry back also complements the temporary full expensing measure by allowing more companies to take advantage of expensing, while its available.

Intangible assets depreciation: option to self-assess effective life

The budget confirmed that the income tax law will be amended to allow taxpayers to self-assess the effective life of certain intangible assets (such as intellectual property and in-house software), rather than being required to use the effective life currently prescribed.

This amendment will apply to patents, registered designs, copyrights and in-house software for tax purposes. Taxpayers will be able to bring deductions forward if they self-assess the assets as having a shorter effective life to the statutory life.

WELFARE

- To spend $13.2 billion over four years for National Disability Insurance Scheme.
- To commit $17.7 billion to mental health care and suicide prevention.
- To commit $2 billion to fund preschools.
- To provide more than $19 billion in funding for universities in 2021-22.

The Government believes the 2021-22 Budget will consolidate the gains made since the last Budget in October 2020 and put the economy on course for the unemployment rate to fall below 5%. To reach these targets the Government has committed $291 billion (or 14.7% of GDP) in direct economic support for individuals, households, and businesses since the onset of COVID-19.

Source: Butler Settineri

Federal Budget 2021-2022 Assessment

At a micro level the Budget may be criticised on the grounds that: more money is likely still needed for aged care and childcare, the extra infrastructure spending is still not enough, there is not a lot of productivity enhancing reforms, and the housing measures continue to focus more on boosting demand rather than supply which will result in higher prices and more debt. In terms of housing, a preferable approach would be to focus more on boosting supply and to take advantage of the opportunities provided by the work from home phenomenon to encourage more to move to more affordable regions, while at the same time making sure increased regional demand is matched by more supply. Reducing some of the buying power of investors by reducing the capital gains tax discount (not likely!) could also free up space for first home buyers and single parent incentives.

But at macro level it's hard to fault the Government's overall strategy since the pandemic began. Our assessment remains that the blow out in the budget deficit to support the economy through the pandemic was necessary and we are now seeing the benefit of the Government's strategy in that it's enabling the economy and jobs to rebound far faster after a recession. It is also worth noting that Australia's level of net debt remains low compared to other developed countries. While bond yields have increased, debt interest remains very low making high debt more sustainable and most of the support programs were temporary and targeted and so, are rightly ending as the need for them declines.

It also makes sense for the Government to remain focussed on growing the economy. We are still a long way from full employment, which could be at a 4% unemployment rate or below, particularly when high underemployment is allowed for. Reverting quickly to fiscal austerity would just put all the pressure back on the RBA at a time when it has few levers to pull – and delay the return to full employment and decent wages growth. Which would risk heightened social tensions.

Implications for Australian assets

Cash and term deposits- with the cash rate likely to remain at 0.1%, cash & bank deposit returns will stay low for a long time.

Bonds- still low bond yields combined with a rising trend in yields as the economy recovers resulting in capital loss mean that medium-term bond returns are likely to be low.

Shares- ongoing fiscal stimulus, strong growth and low rates all remain supportive of Australian shares, notwithstanding the high risk of a short-term correction.

Property- more home buyer incentives along with low rates and economic recovery will likely see house prices rise further this year and next although the pace of increase is likely to slow.

The $A- ongoing fiscal stimulus, rising commodity prices and a declining $US point to more upside for the $A. Source: Shane Oliver AMP Insights

This Tax Season, You've Been Warned

The end of the financial year is creeping up on us, and this tax season is likely to look a little different.

From extended hours working from home to the complexities of crypto investments, there's a lot to keep in mind this year, and the ATO has been clear a "copy and paste" job of your 2019/20 claim will not cut it.

The latest news in relation to this is the ATO has shared an update explaining the red flags they will be looking for in tax returns for 2020/21. Ray Jaramis, Head of Financial Wellness at Employment Hero shared his thoughts on the updates for added insight.

Here are the key points to keep in mind.

Tax returns will be different this year

Assistant Commissioner Tim Loh noted in a statement that the ATO is expecting a bump in claims this year, but that Aussies need to keep in mind that the shift in work culture means some traditional claims may no longer make sense.

“We know many people started working from home during COVID-19, so a jump in these claims is expected”.

“But if you are working at home, we would not expect to see claims for travelling between worksites, laundering uniforms or business trips”.

He stressed the ATO will be paying close attention to deductions that are significantly higher than usual. Especially those that list both costs for working from home and travelling into the office.

“We will also look closely at anyone with significant working from home expenses, that maintains or increases their claims for items like car, travel or clothing expenses”.

Car costs, laundry expenses and travel to work were some areas specifically named in the ATO'S statement. On travel into work specifically, the update read: If an employee is working from home due to COVID-19, but needs to travel to their regular office sometimes, they cannot claim the cost of travel from home to work as these are still private expenses.

Most of us will have different claims this year because, simply the world was remarkably different last year.

Hold onto your receipts

Its important you keep receipts on hand and hold onto any relevant evidence surrounding unusual purchases.

Car depreciation is another area that has been flagged in the lead up to tax time. On this topic its reasonable to think most of us, used our car less last year than previous year’s. Make sure your records reflect this.

Honest mistakes are not the end of the world, but be diligent. The statement from the ATO specified genuine errors will be considered, but excessive claims will not be overlooked.

The ATO will be sympathetic to legitimate mistakes where good faith efforts have been made. However, where we spot people deliberately claiming things they’re not entitled to, firm action will be taken.

While your accountant is there to help you file your tax return, it’s important to understand that “using a tax accountant does not absolve you of all responsibility”.

You have a responsibility to know what you’re claiming and to confirm the details of your income tax return before they lodge it for you. You can check out the ATO’s occupation and industry guides for some additional details on what you can and cannot claim. Source: Lifehacker Australia Stephanie Nuzzo

Should you wish to discuss any aspect of the information contained in this document, please contact your Financial Planner

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