THE INCOME TAX PROFESSIONALS

New Budget 2020
What It Means For Australian Businesses

Businesses are set to receive $31.6 billion in tax breaks as a part of the recently announced new budget in a bid to get the economy moving after the devastating effects of the Coronavirus on the economy.

The Government is hoping to stimulate $200 billion in business investment in new machinery and equipment, boost the economy by $12.5 billion over the next two years and create an extra 50,000 jobs. Immediate tax breaks form a large part of the plan in which the Government hopes to temporarily allow businesses to claim back recent taxes paid and encourage them to bring forward investment and will be available for businesses with a turnover of up to $5 billion.

Temporary Immediate 'Full Expensing' Deduction For Small Business

Small to medium business take up a large part of the Australian business landscape and is responsible for millions of jobs in Australia. From 7 October 2020 until 30 June 2022, business with a turnover of up to $5 billion will be able to deduct the full cost of an eligible asset in the first year it is used or installed.

Business can now fully expense capital items, such as plant and machinery, fixtures and fittings, technology, such as laptops and computers, and many motor vehicles (there is a cost limit on some passenger vehicles).

"Full expensing" in the year of first use or installation will apply to new depreciable assets and the cost of improvements to existing eligible assets. Fill expensing also applies to second-hand assets for businesses with annual revenue of less than $50 million.

Those businesses with an aggravated turnover between $50 million and $500 million can still deduct the full cost of eligible second-hand assets costing less than $150,000 that are purchased by 31 December 2020. This is part of the existing instant asset write-off legislation. Businesses that hold assets eligible for the existing $150,000 instant asset write-off will have an extra six months, until 30 June 2021, to first use or install those assets. Tax losses provided by capital investment can be carried forward and used as a tax loss.

Simplified Depreciation Pool

Small businesses with an aggregated annual turnover of less than $10 million per year can deduct the balance of their simplified depreciation pool at the end of the financial year while full expensing applies.

Temporary Loss Carry-Back To Support Cash Flow

Currently, companies are required to carry losses forward to offset profits in future years. With the new budget, eligible companies will be allowed to carry back tax losses from the 2019-20, 2020-21 or 2021-22 income years to offset previously taxed profits in 2018-19 or later income years. Corporate tax entities with an aggregated turnover of less than $5 billion can apply tax losses against taxed profits in a previous year, generating a refundable tax offset in the year in which the loss is made. The amount carried back should not be more than the earlier tax profits and does not generate a franking account deficit.

Tax Concessions Expanded

Small business with an aggregated annual turnover of $10 million or more but less than $50 million will, for the first time, have access to up to 10 further small business tax concessions. This will be achieved in three phases.

Fringe Benefits Tax

Fringe Benefit Tax currently payable where an employer provides training to redundant or soon-to-be-redundant employees without sufficient connection to their current employment will now be exempt from the current 47% fringe benefits tax (FBT). This will enable employers to upskill employees, and provide an incentive for employers to retrain redundant employees to prepare them for their next job. The Government will also consult on allowing an individual to deduct education and training expenses they incur themselves where the expense is not related to their current employment.

In the next phase of FBT reform, from 1 April 2021, eligible businesses will be exempt from the 47% FBT on car parking and multiple work-related portable electronic devices provided to employees.

Paperwork normally required that relied on employee declarations and other prescribed records will now only need existing corporate records to finalise their FBT returns. This will come into effect from 1 April 2021.

Simplified Trading Stock Rules

From 1 July 2021, eligible businesses will be able to access the simplified trading stock rules, remit pay as you go (PAYG) instalments based on GDP adjusted notional tax, and settle excise duty and excise-equivalent customs duty monthly on eligible goods under the small business entity concession.

Income Tax Assessments

More turnover thresholds will align to the aggregated annual turnover threshold for a base rate entity for company tax purposes. Starting from 1 July 2021, eligible businesses will have a two-year amendment period apply to income tax assessments for income years, excluding entities that have significant international tax dealings or particularly complex affairs.

The Commissioner of Taxation's power to create a simplified accounting method determination for GST purposes will be expanded to apply to businesses below the $50 million aggregated annual turnover threshold from 1 July 2021.

Research and Development Tax Incentive

For small companies with an aggravated annual turnover of less than $20 million, the refundable R&D tax offset will be set at 18.5 percentage points above the company tax rate, and the 4 million cap on annual cash refunds will not proceed.

For businesses with an aggravated annual turnover of $20 million of more, the number of intensity tiers will be adjusted from three to two, providing greater certainty for R&D investment.

The marginal R&D premium will be the claimant's company tax rate plus:

- 8.5 percentage points above the claimant's company tax rate for R&D expenditure between 0% and 2% R&D intensity for larger companies.
- 16.5 percentage points above the claimant's company tax rate for R&D expenditure above 2% R&D intensity for larger companies.

Funding and Fees for Australia's Foreign Investment Framework

$86.3 million over four years will be spent on a new ICT platform to support the foreign investment application process and compliance activities as well as consolidating a new Register of Foreign Ownership of Australian Assets. This is in addition to the net funding of $54.1 million over four years announced in the July 2020 Economic and Fiscal Update, for Reforming Australia's Foreign Investment Framework.

From 1 January 2021, the Federal Government will simplify the foreign investment fee framework and adjust fees from 1 January 2021.

Corporate Residency Test Clarified

If an offshore company that has significant economic connection to Australia will be tested, and if determined that the company has significant economic connection to Australia will be treated as an Australian tax resident for tax purposes. The measure will have effect from the first income year after the date of Royal Assent of the enabling legislation, but taxpayers will have the option of applying the new law from 15 March 2017.

Victoria's Business Support Grants to Be NANE

The Federal Government will ensure that the Victorian support grants for small and medium sized businesses will be non-assessable and non-exempt (NANE) for income tax purposes. This arrangement will be extended to all states and territories on an application basis. Eligibility will be limited to grants announced on or after 13 September 2020 and for payments between 13 September 2020 and 30 June 2021.

ITP The Income Tax Professionals have helped Australian Individuals with their tax and finances for 50 years. We're always on top of changes made through the ATO and both Federal and State Governments. There's no doubt this latest budget will affect many Australians. If you're wondering how these change affect you, our friendly consultant are free to chat. Phone 1800 367 487 today.