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2020/21 FEDERAL BUDGET

1.0 Personal Income Tax Changes

1.1 Changes to Personal Income Tax Rates

The Government has announced that it will bring forward changes to the personal income tax rates that were due to apply from 1 July 2022, so that these changes now apply from 1 July 2020 (i.e., from the 2021 income year). These changes involve:

- increasing the upper threshold of the 19% personal income tax bracket from $37,000 to $45,000; That would reduce annual tax payable by up to $1,080 for those earning $45,001 to $90,000; and
- increasing the upper threshold of the 32.5% personal income tax bracket from $90,001 to $120,000. That would reduce annual tax payable by up to $2,430 for those earning $90,001 to $120,000;

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	$18,201 - **$45,000**
32.5%	$37,001 - $90,000	**$45,001 - $120,000**
37%	$90,001 - $180,000	$120,001 - $180,000
45%	$180,001+	$180,001+

1.2 Changes to the Low-Income Tax Offset ('LITO')

The Government announced that it will also bring forward the changes that were proposed to the LITO from 1 July 2022, so they will now apply from **1 July 2020** (i.e. **from the 2021 income year**), as follows:

- The maximum LITO will be increased from $445 to **$700.**

2.0 Changes affecting business taxpayers

2.1 Uncapped immediate write-off for depreciable assets

The Government has announced it will introduce the following changes to the Capital Allowance provisions:

(a) Businesses with an aggregated annual turnover of less than $5 billion will be able to claim an immediate deduction (what the Budget terms as 'full expensing') for the full (uncapped) cost of an eligible depreciable asset, in the year the asset is first used or is installed ready for use, where the following requirements are satisfied:

- The asset was acquired from 7:30pm AEDT on 6 October 2020 (i.e., Budget night).
- The asset was first used or installed ready for use by 30 June 2022.
- The asset is a new depreciable asset or is the cost of an improvement to an existing eligible asset, unless the taxpayer qualifies as a small or medium sized business (i.e., for these purposes, a business with an aggregated annual turnover of less than $50 million), in which case the asset can be second-hand.

(b) small businesses (i.e., with aggregated annual turnover of less than $10 million) can claim a tax deduction for the balance of their simplified depreciation pool at the end of the income year.

- For Farm Businesses this includes all items that would usually be added to your depreciation schedule including sheds, silos, machinery and farm equipment.
- Before purchasing assets, you will also need to consider the implications to future year's taxable income.
- If you claim all the depreciation now and this results in a loss and no tax payable is this really the best long-term option?
- If you buy an item of plant now and claim a 100% tax deduction this year what happens in the year it is sold or traded in?
  For example, you buy a header now to $700,000 (plus GST) you get a $700,000 tax deduction this financial year. However, in 3 years you trade it in on a new model for $500,000 that will then increase your taxable income for the 2024 Financial Year by half a million.
- A suggestion is to consider that it may be better to buy assets that you intend to hold for the long term such as silos, farm sheds, solar systems or water infrastructure.
- 100% Depreciation sounds great! However, it could result in a loss and you could lose the opportunity to maximise primary production averaging or tax-free thresholds of family members.
- From another perspective it could be a great opportunity to redeem your Farm Management Deposits – just remember that will be income to the individuals not the trading entity.
- We recommend you **contact us before** you spend money buying an expensive asset. You need to consider cashflow, tax planning, finance and if the purchase aligns with your strategic planning. This decision could impact not just this current year, but also future years.

2.2 JobMaker Hiring Credit

The Government will introduce a JobMaker Hiring Credit to incentivise businesses to take on additional young job seekers.

From 7 October 2020, eligible employers will be able to claim $200 a week for each additional eligible employee they hire aged 16 to 29 years old and $100 a week for each additional eligible employee aged 30 to 35 years old. New jobs created until 6 October 2021 will attract the credit for up to 12 months from the date the new position is created.

The JobMaker Hiring Credit will be claimed quarterly in arrears by the employer from the ATO from 1 February 2021. Employers will need to report quarterly that they meet the eligibility criteria. The amount of the credit is capped at $10,400 for each additional new position created. Furthermore, the total credit claimed by an employer cannot exceed the amount of the increase in payroll for the reporting period in question (see employer eligibility requirements below).

2.2.1 Who is an eligible employee?

Employees may be employed on a permanent, casual or fixed term basis. To be an 'eligible employee', the employee must:

- be aged (i.e., at the time their employment started) either:
  - 16 to 29 years old, to attract the payment of $200 per week; or
  - 30 to 35 years old to attract the payment of $100 per week;
- have worked at least 20 paid hours per week on average for the full weeks they were employer over the reporting period;
- have commenced their employment during the period from 7 October 2020 to 6 October 2021;
- have received the JobSeeker Payment, Youth Allowance (Other), or Parenting Payment for at least one month within the past three months before they were hired; and
- be in their first year of employment with this employer and must be employed for the period that the employer is claiming for them.

2.2.2 Who is an eligible employer?

An employer is able to access the JobMaker Hiring Credit if the employer:

- has an ABN;
- is registered for Pay As You Go withholding;
- is reporting through Single Touch Payroll;
- has kept adequate records of the paid hours worked by the employee they are claiming; and
- is able to demonstrate that the credit is claimed in respect of an additional job that has been created. Broadly, there must be an increase in the business' total employee headcount and also in the payroll of the business for the reporting period (based on a comparison over a specified reference period).

Employers do not need to satisfy a fall in turnover test to access the JobMaker Hiring Credit. Certain employers are excluded, including those who are claiming the JobKeeper payment.

2.3 Tax-free business support grants

The Government has announced that the Victorian Government's Business Support Grants for small and medium businesses, as announced on 13 September 2020, are non-assessable, non- exempt income for tax purposes. The Government may extend this arrangement to similar future grants from all States and Territories on an application basis. Eligibility for this treatment will be limited to grants announced on or after 13 September 2020 and for payments made between 13 September 2020 and 30 June 2021.
