Budget Bites

The following blog breaks down the 2020 budget into the points that we think are most relevant to our clients, with the detail that you need to know. We hope that it's clear and useful information for you and your family, without all the political point-scoring. To cut out a lot of extra numbers, this does not include information for businesses with an annual turnover of more than $50 million.

Personal Income Tax Cuts

Generally, the first question is "how much more will I receive?" The simplest way to get an answer to that question, is to use the ABC tax calculator here https://www.abc.net.au/news/2020-10-06/budget-2020-income-tax-calculator/12732348 The reduced rate applies from 1^{t} July 2020; but it is expected that you will have to wait until you lodge your 2021 income tax return to receive your tax savings for the months of July, August, September and October. The ATO said they will change the withholding schedules as soon as it is through Parliament. This will only increase your take home pay by 1/12th if you are paid monthly, 1/26th if you are paid fortnightly and 1/52nd if you are paid weekly, of the amount you calculate.
Here are the new tax scales for the 2020-2021 financial year:

Taxable Income	**Tax Payable**
0 - 18,200	Nil
18,201 - 45,000	19% on the excess over $18,200
45,000 - 120,000	$5,092 plus 32.5% of the excess over $45,000
120,000 - 180,000	$29,467 plus 37% of the excess over $120,000
180,001 +	$51,667 plus 45% of the excess over $180,000

Note these rates do not include the Medicare levy, in most cases add another 2%

Tax offsets help you pay your tax, but **cannot be refunded** if your tax liability is not enough to use them all up. What **can be refunded** is your other tax paid through your wages, because the tax offsets are used to pay your tax instead. Your regular pay packet will not be adjusted to allow for these tax offsets, so for most taxpayers it ensures a nice refund at the end of the year.

The tax offsets for the 2020-2021 financial year are as follows:

Up to $700 – Low Income Tax Offset	For taxable incomes less than $37,501, at that point it will shade out at the rate of 5 cents for every dollar, until your income is more than

	$45,000, at which point the shading out slows down. So, you will not qualify for any of this tax offset if your income exceeds $66,666.
Up to $1080 – Low & Middle Income Earners Tax Offset	If your income reaches $48,000 this offset starts to kick in and remains until your annual income reaches $90,000; at which point it shades out at the rate of 3 cents for every dollar over $90,000. Which means you will not qualify for **any** of it if your income exceeds $126,000

The tax offsets mean that as an adult resident of Australia, if your taxable income is below $21,884 you pay no tax at all, so will receive a refund for any tax you have paid.

For those wanting to work through and understand the numbers that will affect their take home pay, basically the $37,000 threshold has moved to $45,000 and the $90,000 threshold has moved to $120,000. This means more of your income is taxed at a lower rate.

$45,000 - $37,000 = $8,000 taxed at 19% instead of 32.5% = 13.5% x $8,000 = $1,080
$90,000 - $120,000 = $30,000 tax at 32.5% instead of $37% = 4.5% x $30,000* = $1,350

So if you earn $120,000 a year or more you will be better off by $2,430

If your wage is under $37,000 you will not be receiving anything more in your pay packet. If your wage is under $45,000 but over $37,000 just multiply the difference between $37,000 and your annual wage 13.5% to get your annual tax benefit.

If your income is over $90,000 but under $120,000 replace the $30,000* in the formula above with the difference between your income and $90,000.

Divide the tax saving that you calculate as applicable to your wage by your pay period and that will give you an idea of how much more to expect in your pay packet once the ATO release the new withholding tax schedules.

Granny Flats

As the law currently stands if you give a parent a right to occupy your home or a granny flat on your property, it is a CGT event. You will be taxed on a capital gain equivalent to the market value of that right, for example the notional rent over the parent's lifetime. **There is no 50% CGT discount and no main residence exemption**. Alternatively, if your parent pays you a regular amount to live there, your home may be considered to be used to produce income with CGT consequences when you sell. As a result, children were reluctant to give their parents any legal right even though the parent may have contributed the money to build the granny flat. This has led to elder abuse.

The 2020 Federal Budget announced that this tax consequence would be removed from 1 July 2021. In the meantime, if you would like to understand more about this problem, we have been banging on about it for years, and we think it's about time the government brought about a change in this regard. Here is a link to our blog https://bantacs.com.au/Jblog/granny-flat-rights/#more-262

Business - Immediate Write-Off for Plant and Equipment

The catch here is if you participate in the concession, then **all** your plant and equipment is affected. Anything you buy during that year will be immediately written off, as will the balance of your plant and equipment pool. The only option you have is to choose not to be involved in this at all. Why would you not want to have the largest amount of tax deductions possible? Because you might waste your tax-free threshold. It is important to make sure that each year you and anyone you are entitled to distribute income to has a taxable income of at least $21,884 (see discussion on personal tax rates above). Every year resident (adult) taxpayers are entitled to earn that much before paying tax. It would be a terrible waste to take future tax deductions into this year and wind up only reducing your income below what is taxable anyway. If your business is in a company or trust at least you can retain losses for future use but you still need to consider how you are going to manage, to make sure you have at least $21,884 in taxable income in your personal tax return. Remember that a JobKeeper business participant is taxable in the hands of the business entity, **not** the individual business participant, unless they are a sole trader. This is why it is important to discuss any expenditure with your Ban Tacs Accountant first, please!

With that disclaimer, the budget immediate write-off concessions are pretty easy to explain. Basically, the cost of any equipment you buy after 7.30pm on 6 October can be claimed as an immediate tax deduction, provided it is installed ready for use by 30 June 2022. No cap on the amount you spend, and it can be second-hand. It also includes improvements to existing assets (but this is for plant and equipment not buildings).

Of course, it is not law yet. As soon as it is, we will update our blog on immediate write offs. In the meantime here is the link https://bantacs.com.au/Jblog/the-25k-immediate-writeoff-clever-trick/#more-201 to our previous blog on the topic which, if you remove the $150,000 cap, the rest of it will probably be very similar to what finally gets through Parliament.

Wage Subsidies

This is called the Jobmaker Hiring Credit. It will be paid quarterly in arrears, and available for up to 12 months from the date of employment of the eligible employee, with a maximum amount of $10,400 per additional new position created. Employers will need to demonstrate that the new employee will increase overall employee headcount and payroll. This only applies to employees who work more than 20 hours per week, **and** were previously on Jobseeker, Youth Allowance or Parenting Payment for at least 1 month in the previous 3 months.

The subsidy is:

$200 pw for employees 16 to 29 years of age
$100 pw for Employees 30 to 35 years of age
Over 35 years of age - Nothing

There is also a subsidy for 50% of the wage of a new apprentice or trainee. The maximum subsidy is $7,000 per quarter. The subsidy is paid in arrears, and is available for wages paid from 5 October 2020 to 30 September 2021. The apprentice or trainee must be undertaking a Certificate II or higher qualification, and has a training contract that is formally approved by the state training authority. ***Get in quick as there are only 100,000 places available.***

All in all, directed at male dominated occupations and age groups when women have low workforce participation due to childcare responsibilities; and it particularly discriminates against mothers who having raised their children, are returning to the workforce. On top of that, the next day they passed a bill to increase fees for female dominated degrees in order to subsidise male dominated degrees.

Immediate Write-Off For Business Start Up Expenses

Usually these expenses would have to be amortised over 5 years but back dated to 1 July 2020 they can be immediately written off. They include costs of setting up the business entity and possibly feasibility studies.

Carrying Back Losses

This is quite a lucrative tax break that only applies to businesses who need it, but unfortunately not **all** of the businesses that need it. So good in fact, Tony Abbott abolished it after the Gillard/Swan government introduced it to deal with the GFC.

The main hurdle here is it only applies to **trading companies**. It is not enough that you have a company as trustee of your trust. So, if your business operates as a trust, partnership or sole trader, read no further.

If your company made a loss in its 2020 or 2021 tax return or 2022 tax return you can, in your 2021 or 2022 tax return, go back and reduce your 2019, 2020 or 2021 profit by that amount and obtain a refund of the tax you paid in those years. That is, provided it does not exceed your franking account balance. In other words, you cannot claim back tax paid by your company if you have already used it to frank dividends.

This may be a reason to allow the purchase of plant and equipment to push you into a loss situation through the immediate write off provisions. See your Ban Tacs Accountant for greater details for your own business. But remember, you won't see a cent until you lodge your 2020-2021 tax return, at the earliest.

Score Card

It would be so much easier to stimulate the economy if every move didn't have to have at its core an advantage to LNP sponsors and people with "merit", and also high income earners. No; not the primary carers in society - males. No; not small business, but big business that is still probably still going strong, and interested in buying plant and equipment worth more than $150,000. Not low income earners between $21,884 and $37,000 per year, but high income earners (lucky that most politicians get a nice tax bonus in this Budget). But hey, we should all be happy we are allowed to drive on the roads!

Interesting video by Alan Kolher on how much it has cost us to buy a job in big business compared to small business https://www.abc.net.au/news/2020-10-12/what-is-the-cost-of-job-creation/12753898?section=business&nw=0&fbclid=IwAR2nfnUFHpE2mLCYh8ODosigerx-stOrhl3WKz10zeAA45-Y1gneaakRvtY

There you go, the 2020 Federal Budget explained in less than 2000 words and loaded with attitude to keep it interesting!