

2020 Federal Budget and JobKeeper 2.0



We'll cover:

- The 2020 Federal Budget
- Summary of JobKeeper 2.0 including the new alternative decline in turnover tests



2020 Budget

Summary of the main budget measures

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1. Personal tax cuts
 - 2022 cuts brought forward
 - Decrease in the middle bracket rates and thresholds
2. Expanded concessions for small business entities
 - More capital expenses eligible for immediate deductions
 - New FBT exemptions
 - Increased turnover threshold to access the concessions
3. Instant asset write-off.
4. Loss carry back for companies
5. Job Maker hiring credit
6. Others – granny flat exemption, FBT exemption for re-training



Personal tax rate changes



Stage 2 of the Personal Income Tax Plan:

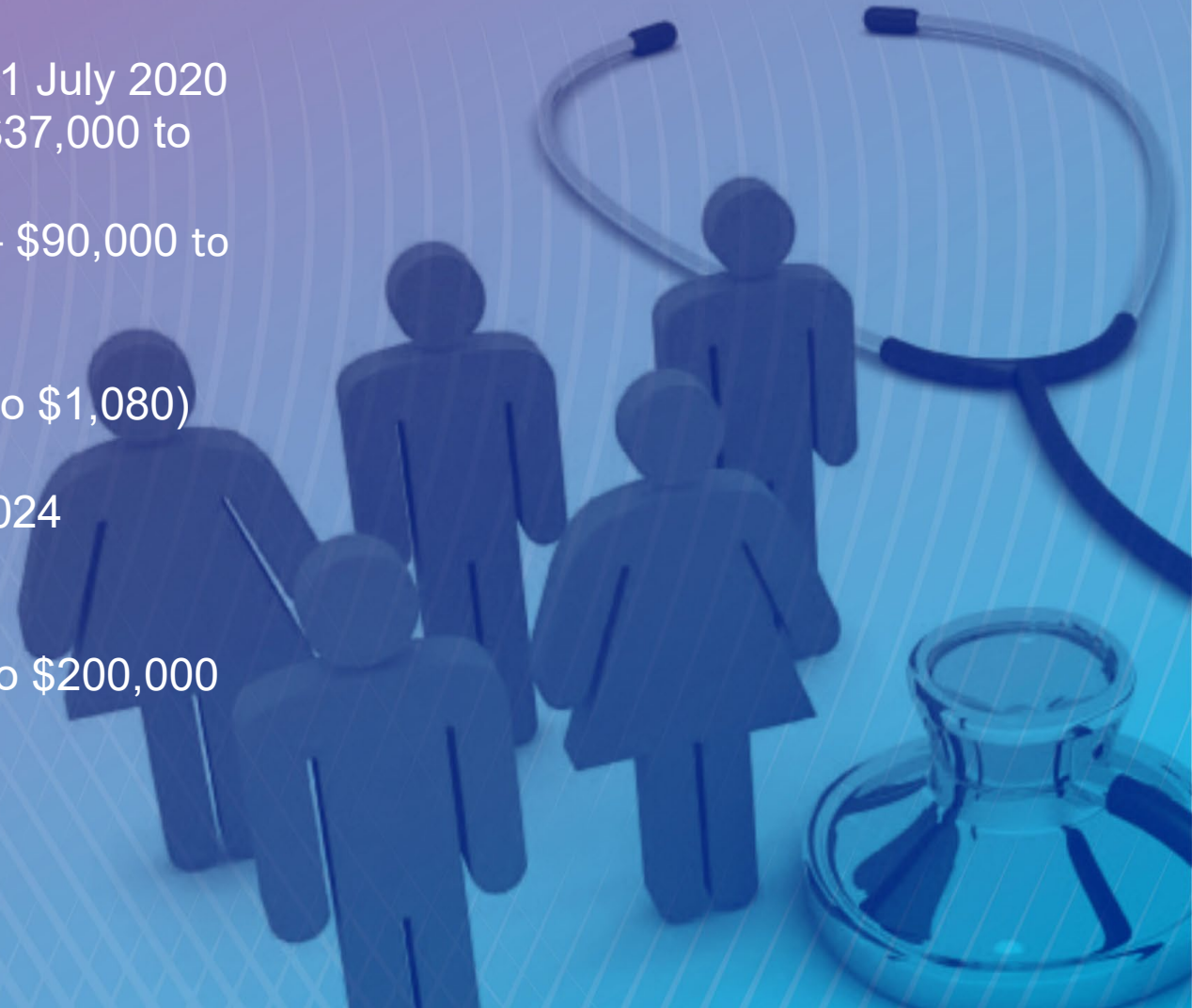
- Start date brought forward from 1 July 2022 to 1 July 2020
- Upper threshold of 19% bracket increased — \$37,000 to \$45,000
- Upper threshold of 32.5% bracket increased — \$90,000 to \$120,000
- LITO — \$445 to \$700
- LMITO — retained until 1 July 2021 (worth up to \$1,080)

Stage 3 — unchanged, commences from 1 July 2024

- 32.5% bracket drops to 30%
- 37% bracket removed
- Highest rate bracket increases from \$180,000 to \$200,000

Earnings: Additional post-tax income in 2021

- \$45,000–\$90,000 \$1,080 per annum
- More than \$120,000 \$2,565 per annum



Personal tax rate changes



To 30 June 2018		STAGE 1 From 1 July 2018		STAGE 2 From 1 July 2020		STAGE 3 From 1 July 2024	
Income threshold	Tax rate	Income threshold	Tax rate	Income threshold	Tax rate	Income threshold	Tax rate
\$18,200	19%	\$18,200	19%	\$18,200	19%	\$18,200	19%
\$37,000	32.5%	\$37,000	32.5%	\$45,000	32.5%	\$45,000	30%
\$87,000	37%	\$90,000	37%	\$120,000	37%	\$200,000	45%
\$180,000	45%	\$180,000	45%	\$180,000	45%		
LITO: Up to \$445		LITO: Up to \$445		LITO: Up to \$700		LITO: Up to \$700	
		LMITO: Up to \$1,080 (2018–19 and 2019–20)		LMITO: Up to \$1,080 (for 2020–21 only)			

Small business changes



Businesses with an aggregated annual turnover: \geq \$10m and $<$ \$50m will have access to these 10 small business concessions

Concession	Legislative reference	Start date
1 Immediate deduction for certain start-up expenses	s 40-88D(2A) of the ITAA 1997	1 July 2020
2 Immediate deduction for certain prepaid expenditure	s 82KZM of the ITAA 1936	1 July 2020
3 FBT exemption for car parking benefits	s 59GA of the FBTA 1986	1 April 2021
4 FBT exemption for multiple work-related portable electronic devices	s 58X(2)(a) and s 58X(4) of the FBTA 1986	1 April 2021
5 Simplified trading stock rules	Subdiv 328-E of the ITAA 1997	1 July 2021

Small Business changes



Concession	Legislative reference	Start date
6 Remit PAYG instalments based on GDP-adjusted notional tax	s 45-130(1)(d) of Schedule 1 to the TAA 1953	1 July 2021
7 Settle excise duty monthly on eligible goods	s 61C of the Excise Act 1901	1 July 2021
8 Settle excise-equivalent customs duty monthly on eligible goods	s 69 of the Excise Act 1901	1 July 2021
9 Two-year amendment period	Item 2, table in s 170(1) of the ITAA 1936	1 July 2021
10 Simplified accounting method determination for GST purposes	s 123-5 of the GSTA 1999	1 July 2021

Small business changes



- \$50m aggregated turnover threshold — consistent with:
 - Base rate entities (corporate tax rate)
 - COVID-19 stimulus measure: Cash flow boost
 - \$30,000 IAWO (as it applied from 2 April 2019 to 12 March 2020)
- Aggregated turnover — grouped with affiliates and entities connected with the Taxpayer
- Carefully assess eligibility



Instant asset write-off

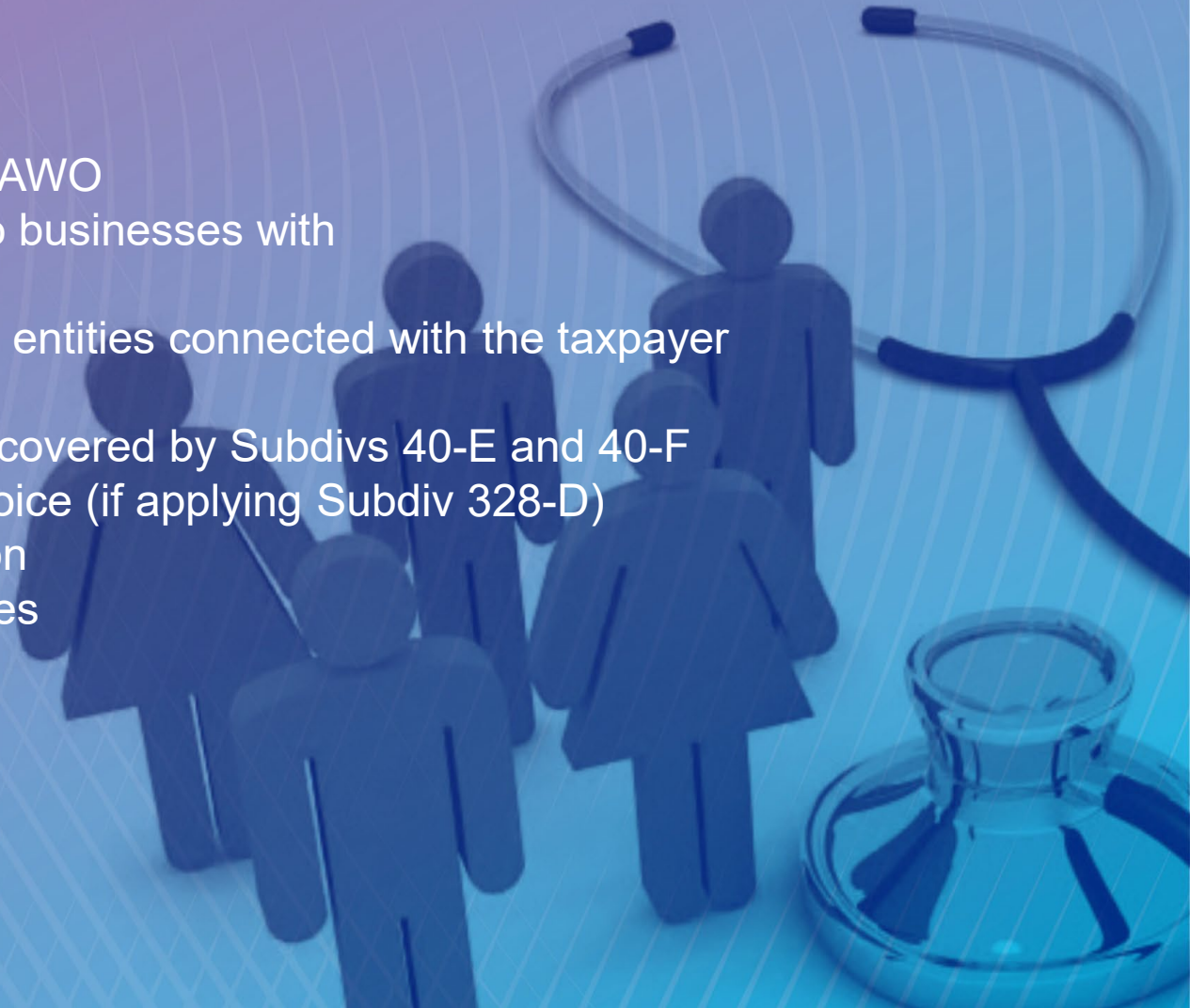


Aggregated turnover	Acquired	First used or installed ready for use	Asset threshold
Small business entity < \$10m	7:30pm on 12 May 2015 to 31 December 2020	7:30pm on 12 May 2015 to 28 January 2019	< \$20,000
		29 January 2019 to before 7:30pm on 2 April 2019	< \$25,000
		7:30pm on 2 April 2019 to before 12 March 2020	< \$30,000
		12 March 2020 to 31 December 2020 30 June 2021	< \$150,000
	From 1 January 2021		< \$1,000
Medium business ≥ \$10m to < \$50m	7:30pm on 2 April 2019 to 31 December 2020	7:30pm on 2 April 2019 to before 12 March 2020	< \$30,000
		12 March 2020 to 31 December 2020 30 June 2021	< \$150,000
Larger business ≥ \$50m to < \$500m	7:30pm on 2 April 2019 to 31 December 2020	12 March 2020 to 31 December 2020 30 June 2021	< \$150,000
< \$5b	From 7:30pm on 8 October 2020	By 30 June 2022 (If turnover ≥ \$50m, asset must be new or cost is for improving an existing asset)	No cap

Instant asset write-off

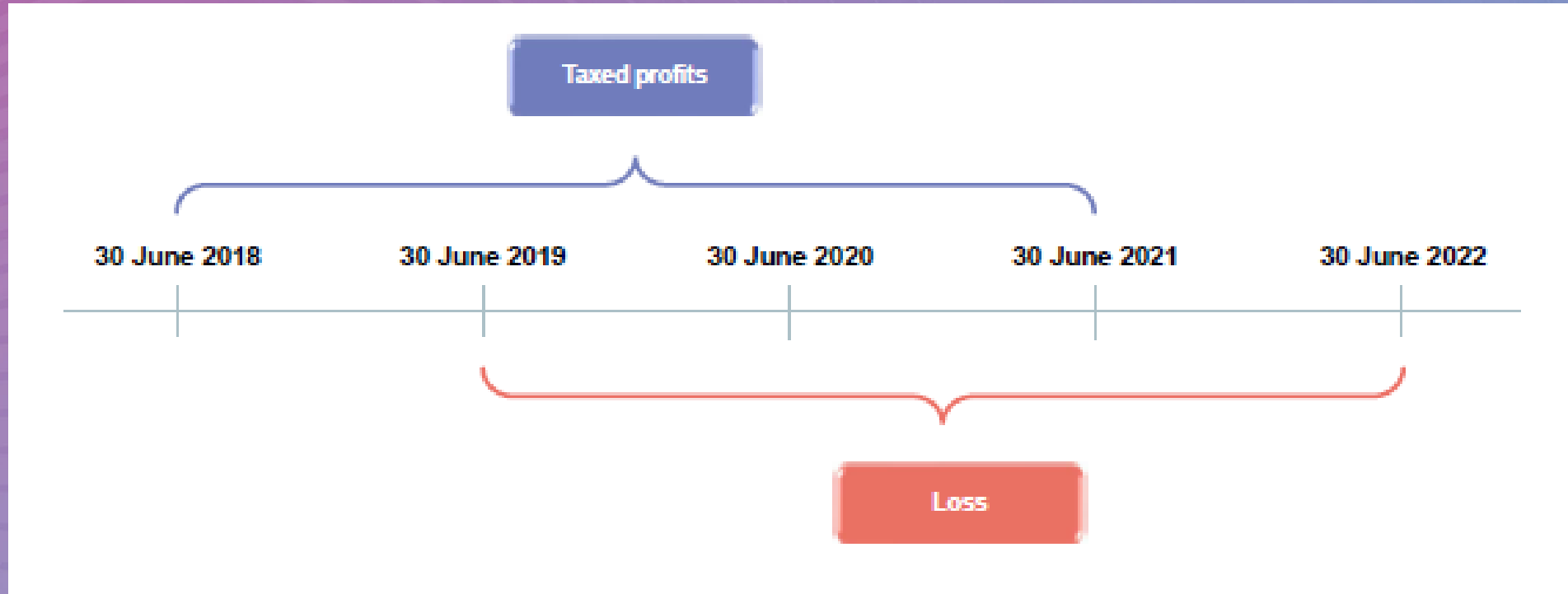


- Very large businesses (\geq \$5b) not eligible for new IAWO
- Full expensing for second-hand assets is limited to businesses with aggregated turnover $<$ \$50m
- Aggregated turnover — grouped with affiliates and entities connected with the taxpayer
- Car limit of \$59,136 (2020–21) still applies to cars
- Excludes buildings and Div 43 assets, and assets covered by Subdivs 40-E and 40-F
- Requirement to write off low pool value is not a choice (if applying Subdiv 328-D)
- In calculating low pool value, disregard depreciation
- Watch the acquisition versus first use/installed dates



Loss carry back

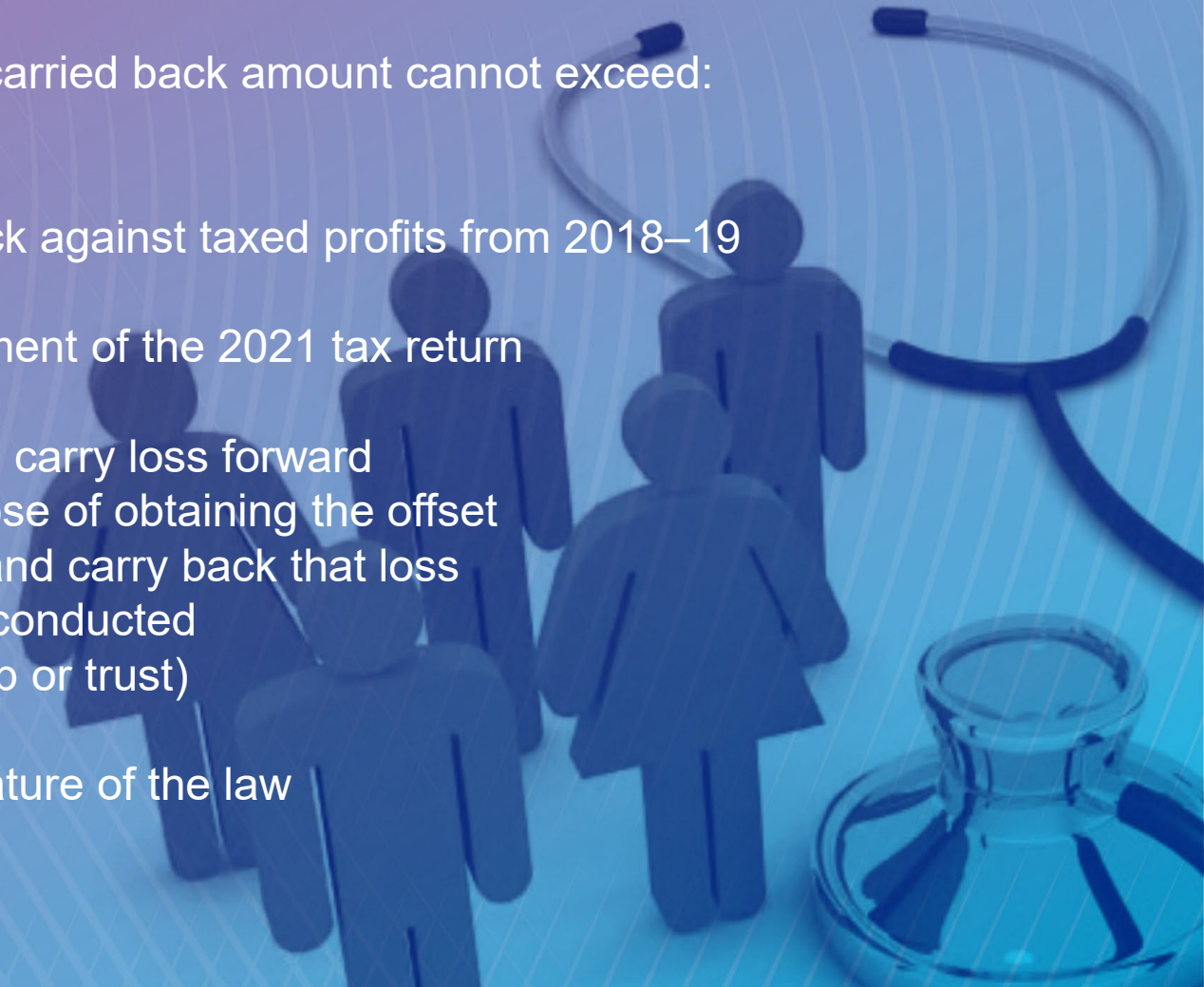
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Loss carry back



- Limited to corporate tax entities, and must carry on business
- Entity's aggregated turnover must be less than \$5b
- Loss carry back tax offset (refundable tax offset) — carried back amount cannot exceed:
 - Earlier tax paid
 - Balance in franking account
- Losses from 2019–20 to 2021–22 can be carried back against taxed profits from 2018–19 to 2020–21
 - However claims cannot be made until the lodgement of the 2021 tax return
- Revenue losses only
- Optional — can choose amount to carry back, or can carry loss forward
- Integrity rule applies — enter into scheme for a purpose of obtaining the offset
- But can create a loss with the instant asset write-off and carry back that loss
- Little benefit to majority of small businesses that are conducted outside a corporate structure (i.e. sole trader, partnership or trust)
- Common scheme in many OECD countries
- Welcome measure — but should be a permanent feature of the law



Loss carry back - example

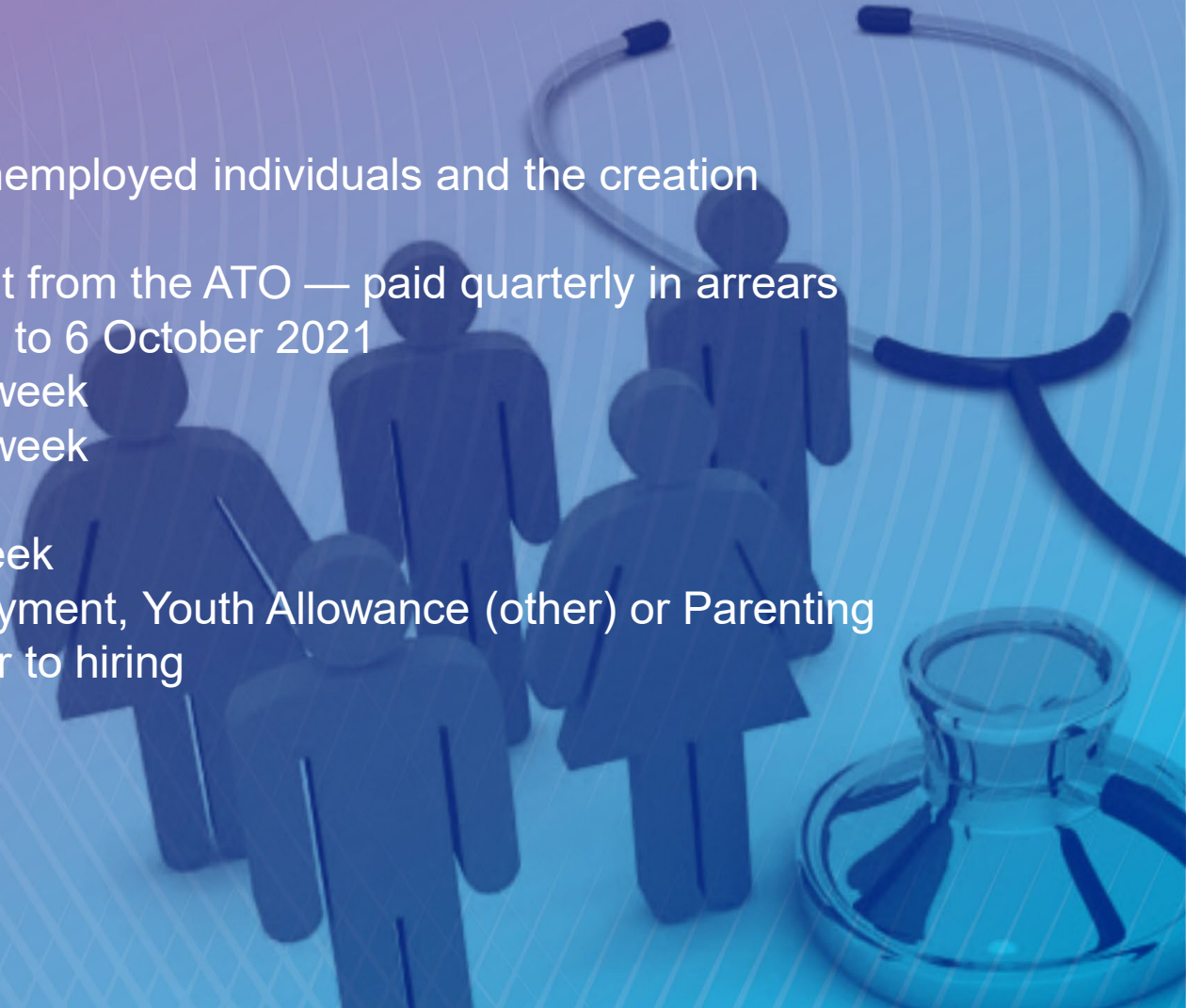


	Taxed profit/ Tax loss	Tax paid	Refundable tax offset	Franking account balance
2018–19	\$5,000,000	\$1,500,000		\$1,500,000
2019–20	\$5,000,000	\$1,500,000		\$3,000,000
Scenario 1 2020–21	(\$4,000,000)		(\$1,200,000)	RTO: <u>(\$1,200,000)</u> \$1,800,000
Scenario 2 2020–21	(\$4,000,000)		(\$1,000,000)	Paid dividend of \$4.87m Div: (\$2,000,000) RTO: <u>(\$1,000,000)</u> Nil

Job Maker hiring credit



- New wage subsidy to encourage hiring of young unemployed individuals and the creation of new apprenticeships and traineeships
- Eligible employers claim the JobMaker Hiring Credit from the ATO — paid quarterly in arrears
- Employment must commence from 7 October 2020 to 6 October 2021
 - Employees aged 16 to 29 — rate of \$200 per week
 - Employees aged 30 to 35 — rate of \$100 per week
 - Annual maximum — \$10,400 per position
 - Employees must work at least 20 hours per week
 - Employees must have received JobSeeker Payment, Youth Allowance (other) or Parenting Payment for at least 1 out of the 2 months prior to hiring
- Regulations released this week



Other measures



- FBT exemption — employer provided retraining and reskilling benefits provided to redundant, or soon to be redundant employees
 - Will encourage employers to help workers transition to new employment opportunities
 - Exemption not available for:
 - retraining acquired by way of a salary packaging arrangement; or
 - training provided through Commonwealth supported places at universities or repayments towards student loans
- Reducing compliance burden — Commissioner will be provided with power to allow employers to use corporate records rather than FBT declarations and prescribed records
- CGT exemption for granny flats arrangements where there is a formal written agreement
 - Removes adverse tax consequences for homeowner
 - CGT exemption available only in respect of a *granny flat interest*¹ — exemption will not be available for a property that is not the *principal home*² of the taxpayer (e.g. a rental property that happens to contain a granny flat)
 - Start date: 1 July following the date of Royal Assent of enabling legislation

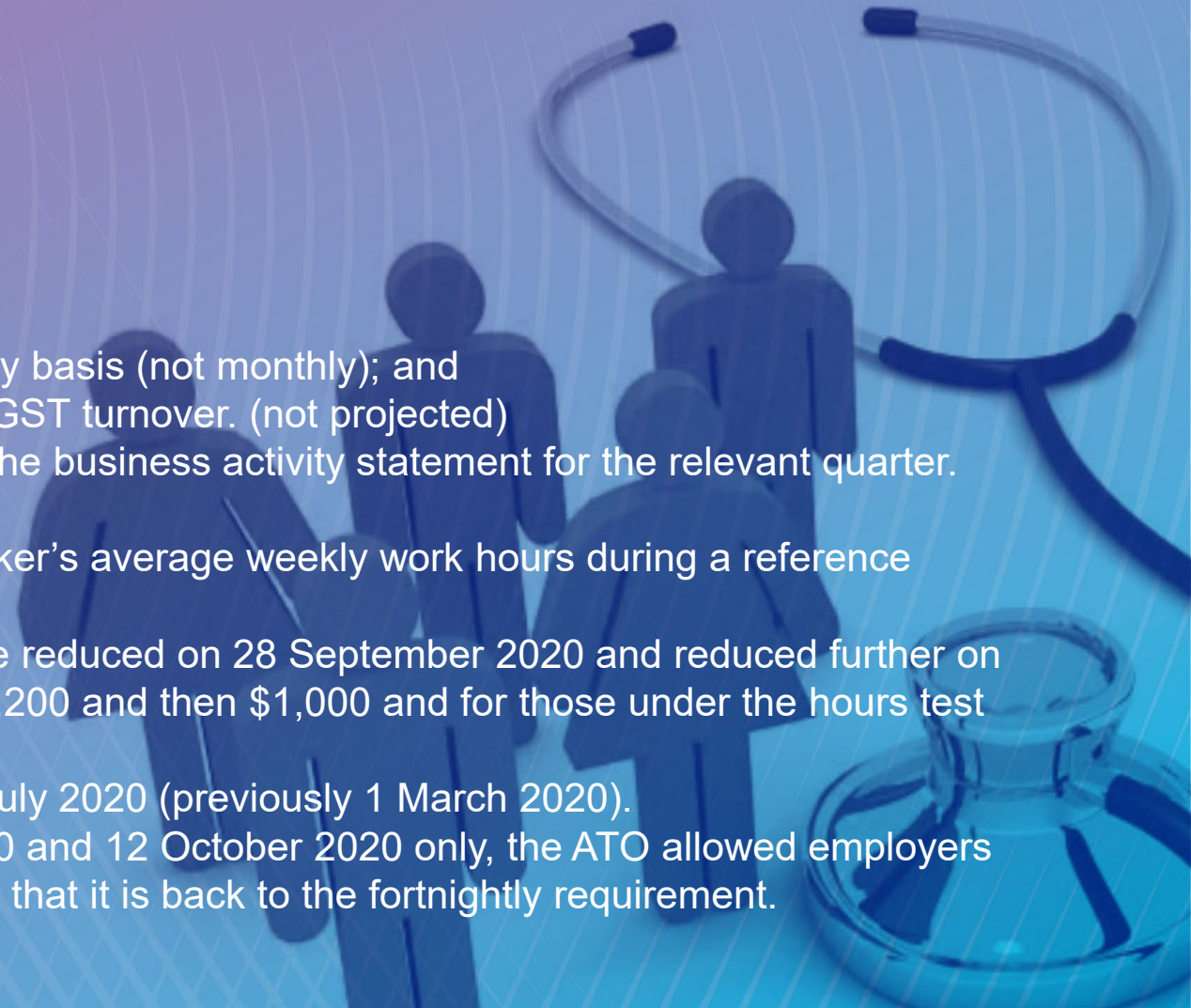


COVID-19

Summary of the changes to JobKeeper 2.0



1. Scheme extended to 28 March 2021 in two periods
 - 28 September 2020 to 3 January 2021
 - 4 January 2021 to 28 March 2021
2. Re-testing your eligibility
 - the decline in turnover will be retested on a quarterly basis (not monthly); and
 - the decline in turnover test will be based on actual GST turnover. (not projected)
 - Your turnover is based on the method you used in the business activity statement for the relevant quarter.
3. Payment tiers
 - a two-tier payment rate will apply based on the worker's average weekly work hours during a reference period;
 - the current \$1,500 per fortnight payment rate will be reduced on 28 September 2020 and reduced further on 4 January 2021 (for those over the hours test to \$1,200 and then \$1,000 and for those under the hours test \$750 and then \$650).
4. JobKeeper employee eligibility reference changed to 1 July 2020 (previously 1 March 2020).
5. For the JobKeeper fortnights starting 28 September 2020 and 12 October 2020 only, the ATO allowed employers until 31 October 2020 to meet the wage condition – after that it is back to the fortnightly requirement.

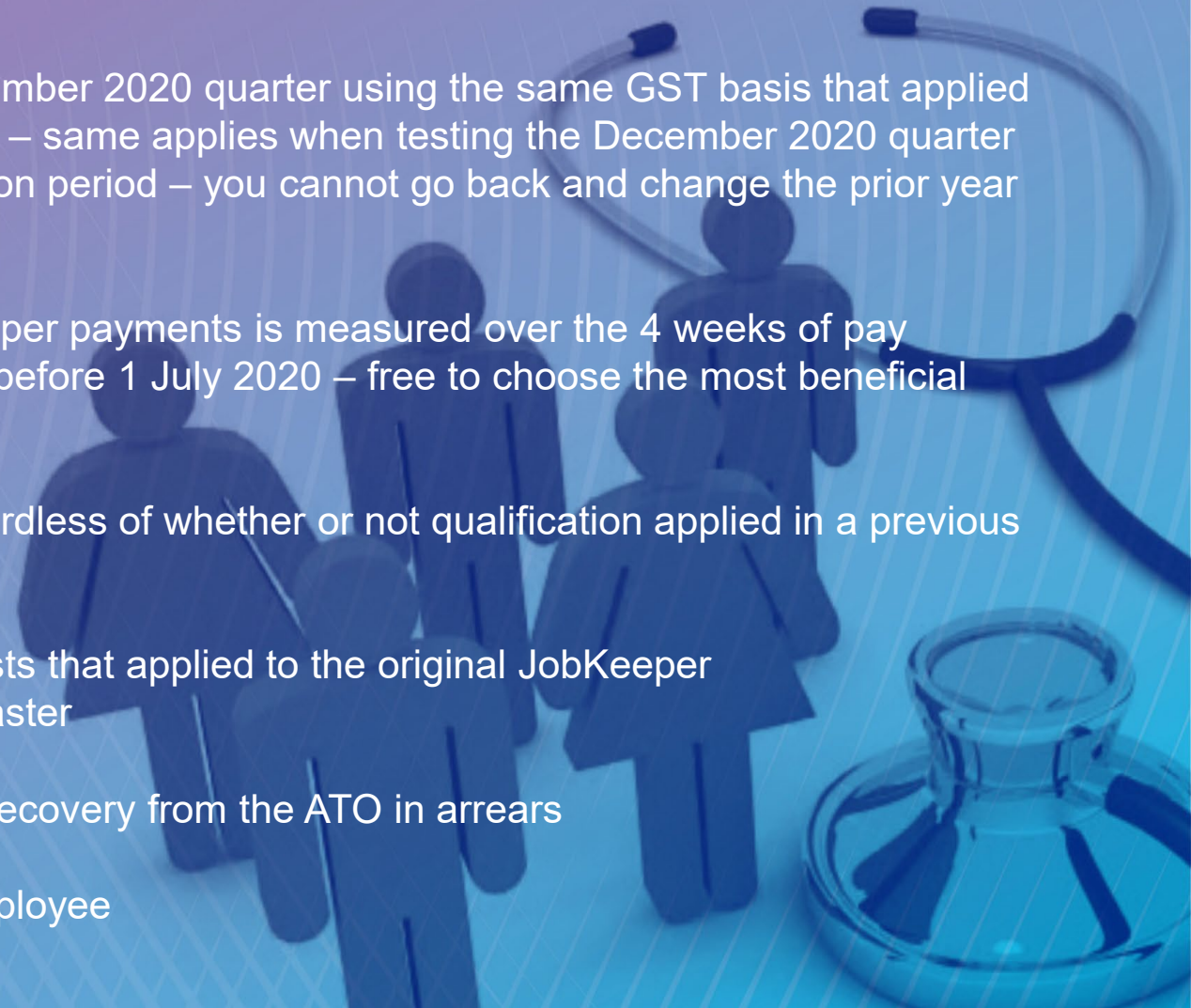


COVID-19 Job Keeper extension

Specific items to consider



1. Actual turnover for the September 2019 quarter and September 2020 quarter using the same GST basis that applied in September 2019 quarter BAS for the 1st extension period – same applies when testing the December 2020 quarter in respect of the December 2019 quarter for the 2nd extension period – you cannot go back and change the prior year turnover basis
2. The 20 hour average weekly hours for the higher JobKeeper payments is measured over the 4 weeks of pay periods before 1 March 2020 or the 4 weeks of pay periods before 1 July 2020 – free to choose the most beneficial one
3. Can qualify for either or both of the extension periods regardless of whether or not qualification applied in a previous period
4. Still subject to the same percentage decline in turnover tests that applied to the original JobKeeper (50%/30%/15%) Business affected by drought or natural disaster
5. Still requires payments to employees in advance and the recovery from the ATO in arrears
6. Businesses will nominate the rate of payment for each employee



COVID-19

The new alternative decline in turnover test

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1. Business started after the first day of the relevant comparison period but before 1 March 2020
2. Business acquisition or disposal that changed the entity's turnover
3. Business restructure that changed the entity's turnover
4. Business that has had a substantial increase in turnover
5. Business affected by drought or natural disaster
6. Business that has an irregular turnover
7. Sole trader or small partnership with sickness, injury or leave.
8. Business temporarily ceased



Questions ?

