GOODMAN
CHARTERED ACCOUNTANTS

Ph: 07 4038 8888
www.dgca.com.au
admin@dgca.com.au

2021 FEDERAL BUDGET REPORT

- **Adapted from BDO's 2021 Federal Budget Report**

JOBTRAINER AND HOUSING

The Government has announced substantial expenditure on two significant programs in a bid to continue Australia's recovery from the COVID-19 pandemic - $506 million pledged towards the continued functioning of the JobTrainer Fund, and over $782 million to expand the operation of the HomeBuilder Grant.

JOBTRAINER

The JobTrainer Fund was initially established as an investment measure to combat the employment issues arising from the COVID-19 pandemic. It operates on a state-by-state basis, with a goal to upskill younger, under-employed members of the workforce. $506 million will be spent over two years from 2021-22 to provide 163,000 training places in industries of critical importance. In particular, aged care and digital skills will be prioritised, in alignment with the budget's emphasis on these industries.

To fulfil eligibility requirements, applicants must not be older than 24, and must also be unemployed or receiving income support payments. Additionally, the announcements outline eligibility will be expanded to include employed individuals in industries most heavily impacted by COVID-19.

HOMEBUILDER

The HomeBuilder Grant has been a popular measure since its announcement in 2020, with over 120,000 applications made before its initial closing deadline of 14 April 2021. The Grant is designed to support the residential construction industry, and provide a more accessible avenue for home ownership in Australia. The Treasurer has announced the reopening of this Grant, supported by $774 million of funding over two years. The construction commencement requirement has been extended from six months to 18 months, which will widen the number of eligible applicants.

Additionally, the expansion of the Family Home Guarantee will provide 10,000 further places to allow single parents with dependants to enter the housing market. This program will allow eligible parties to access deposits as low as 2%. Also, expansion of the New Home Guarantees program will allow 10,000 eligible first home buyers to either build new homes, or purchase newly constructed homes with deposits as low as 5%.

CHILD CARE SUBSIDY

Included in the Women's Economic Security Package are changes to the Child Care Subsidy (CCS) – the aim of which is to improve women's workforce participation and economic security. These changes will come into effect on 1 July 2022. But be warned, the changes don't apply to everyone.

CCS CHANGES

Families will keep more money in their pocket with the CCS rate increasing by 30% for children five years and under. However, these changes only apply to a family's second and subsequent children, meaning single children families will miss out. The CCS increase is capped at a maximum of 95%.

The $1.7 billion dollars' worth of funding over five years will also abolish the $10,560 annual subsidy cap for high income earners. It is hoped the removal of the subsidy cap for high income families will encourage both parents back into full time work.

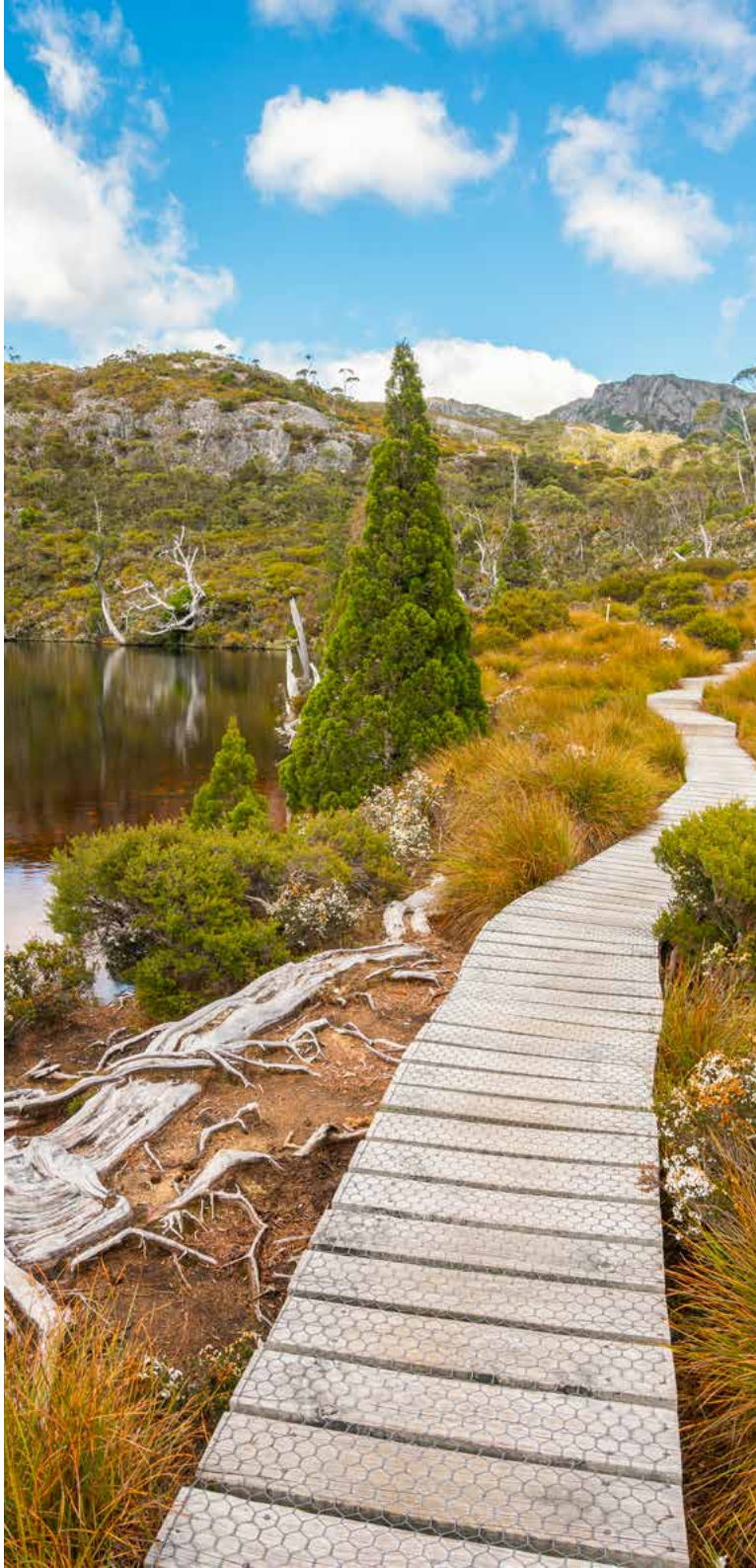

BUSINESS

TEMPORARY FULL EXPENSING EXTENSION

The Government has announced a 12 month extension to the temporary full expensing measures until 30 June 2023. These measures initially announced as part of the previous budget, provide eligible businesses with an immediate deduction for the full cost of depreciating assets.

Under the current law, eligible businesses with aggregated turnover of less than $5 billion are entitled to an immediate deduction for the cost of depreciating assets purchased after 7:30pm AEDT on 6 October 2020, and first used or installed ready for use by 30 June 2022.

The proposed measure extends the immediate deduction for a further 12 months to apply to assets that have been first used or installed ready for use by 30 June 2023.



EXTENSION OF THE LOSS CARRY BACK RULES FOR COMPANIES

The Government has announced an extension to the temporary loss carry-back rules announced in the 2020 Federal Budget. This extension will allow eligible companies to carry back and use tax losses from the 2022-23 income year to offset tax paid on profits from the 2019 and subsequent income years. This refund of tax paid in previous income years when a loss is incurred in a later year is described as a 'loss carry-back'.

Currently, companies with an aggregated turnover of less than $5 billion may only carry-back losses incurred in the 2020-2022 income years to the 2019 income year onwards. Companies that do not elect to use the loss carry-back rules will continue to carry forward losses as normal. The extension of the loss carry-back provisions will provide further support to companies for an additional year.

The following limitations will continue to apply with respect to the loss carry-back measure:

- Losses carried back cannot be more than the earlier taxed profits
- The loss carry-back amount must not generate a franking account deficit.

Companies that elect to apply this measure will receive a tax refund in the loss making year equal to the amount which has been offset by the losses carried back.

EXTENSION OF POWERS FOR THE ADMINISTRATIVE APPEALS TRIBUNAL IN RELATION TO SMALL BUSINESS TAXATION DECISIONS

The Administrative Appeals Tribunal (AAT) will be given the power to pause or modify ATO debt recovery action in relation to disputed debts under review by the AAT's Small Business Taxation Division (SBTD). The measure applies to tax debts disputed by small businesses with annual turnover of less than $10 million.

Under current laws, a stay on ATO debt recovery action, such as garnishee notices, can only be obtained through the court system. This is an expensive and time consuming process for small businesses, and provides no guarantee as to whether the stay will be granted.

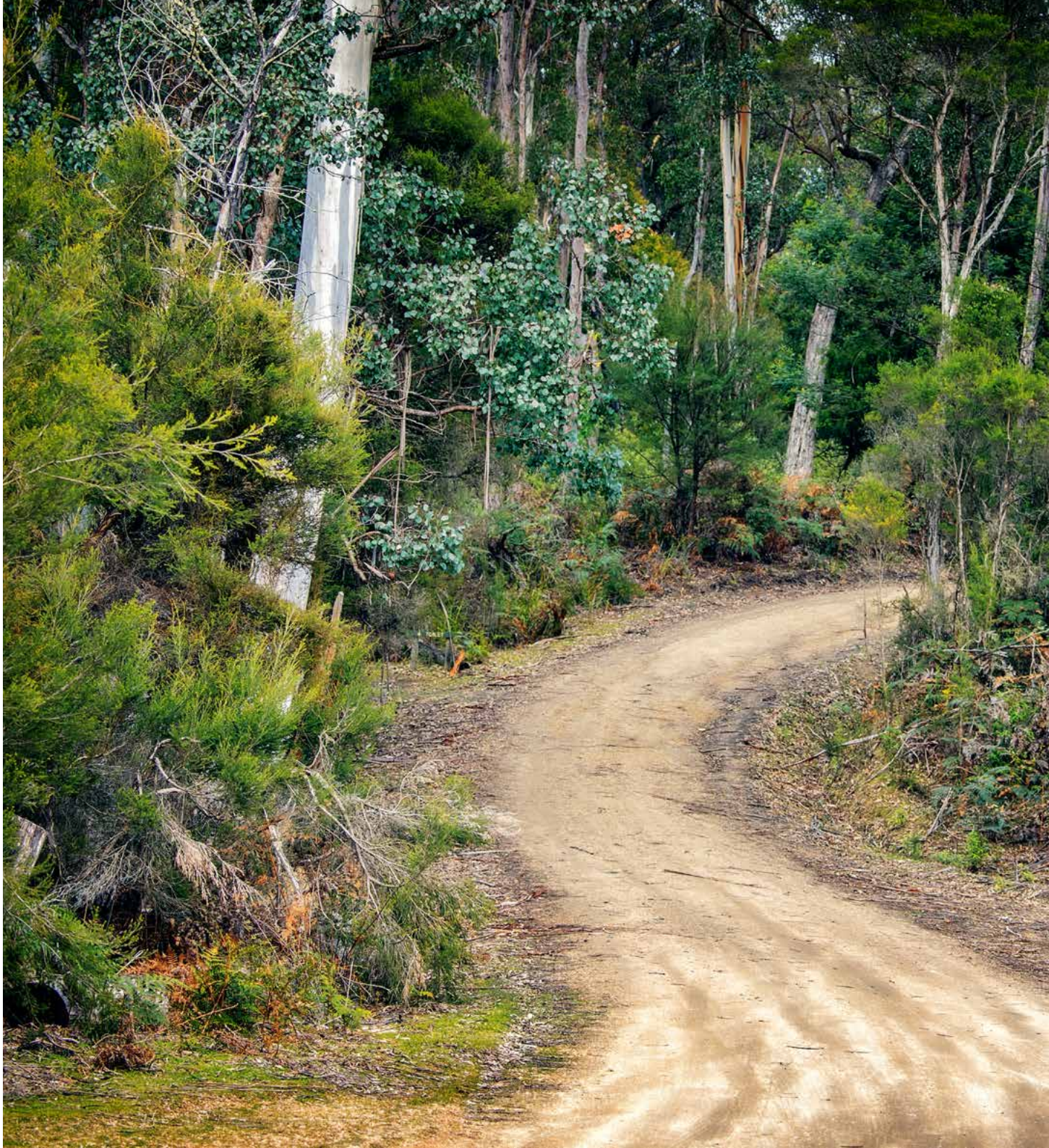
The changes come following a recommendation from the Australian Small Business and Family Enterprise Ombudsman in April 2019, which called for a legislative amendment extending the AAT's powers to pause tax debt recovery action. The measures are intended to reduce legal fees and red tape for small businesses.

Under the new laws, taxpayers who file an application before the SBTD will be able to apply for a pause or modification of ATO debt recovery actions until the underlying dispute has been decided. In determining applications, the AAT will be required to consider the effect on the integrity of the tax system and ensure the underlying dispute is genuine.

SELF-ASSESSED EFFECTIVE LIVES FOR INTANGIBLE ASSETS

Currently, the effective lives for intangible depreciating assets such as patents, registered designs, copyrights and in-house software are prescribed in the tax legislation. Unlike tangible depreciating assets, taxpayers do not currently have the option of self-assessing the effective life of intangibles and thereby increasing their depreciation deductions.

This measure allows taxpayers to self-assess the effective lives of eligible intangibles giving businesses a greater ability to align the tax treatment with the actual economic benefits provided from the asset. The new rules will apply from 1 July 2023 (after the temporary full expensing measures cease).



THE ROAD TO INTERNATIONAL TAX COHERENCY AND TRANSPARENCY

In line with the global push to safeguard against offshore tax avoidance and evasion, the Government has introduced two measures promoting international tax coherency and transparency.

OFFSHORE BANKING UNITS

In response to the Organisation for Economic Cooperation and Development's (OECD) designation of Australia as a harmful tax regime, the Government has introduced measures to abolish the Offshore Banking Unit (OBU) regime. Under the proposed changes, the OBU regime:

- Removes the preferential tax rate of 10% currently available to participants on eligible activities
- Removes the interest and gold withholding tax exemption for OBUs from 1 January 2024
- Closes the OBU regime to new entrants from 26 October 2018
- Allows existing participants of the OBU regime to continue to have access to the preferential rate up until the end of the 2022/23 income year.

Under this proposal, existing participants of the OBU regime will not be immediately impacted. Concessional tax rates and withholding tax exemptions will continue to exist up to the end of the 2023 income year. After that time, OBUs will no longer enjoy special tax concessions.

EXCHANGE OF INFORMATION

Jurisdictions around the world have collectively moved towards greater tax transparency and the exchange of information. The Government will update the list of jurisdictions that have an Effective Information Sharing Agreement (EISA) with Australia.

Residents of jurisdictions with an EISA are eligible to access the reduced Managed Investment Trust (MIT) withholding tax rate of 15% on certain distributions, instead of the default tax rate of 30%. Effective from 1 January 2022, the list of countries will be expanded to include Armenia, Cabo Verde, Kenya, Mongolia, Montenegro and Oman.


INDIVIDUALS

PERSONAL INCOME TAX CUTS

The Government continues its Personal Income Tax Plan with the announcement of a number of measures targeted towards low and middle-income earners. This will provide immediate relief to individuals and support economic recovery by boosting consumer spending.

RETAINING THE LOW AND MIDDLE INCOME TAX OFFSET

The coalition has again extended the low and middle income tax offset (LMITO) for a further year to the 2021-22 income year. The LMITO provides a reduction in tax of up to $1,080 for those earning less than $90,000 and will be received on assessment after individuals lodge their tax return.

Increasing the Medicare levy low-income thresholds

In addition, the Government will also increase the Medicare Levy low-income thresholds. This will apply to singles, families, and seniors and pensioners from 1 July 2020 to account for recent movements in CPI.

The thresholds will increase as follows:

- Singles - $22,801 to $23,226
- Families - $38,474 to $39,167
- Seniors and pensioners - $36,056 to $36,705
- Family threshold for seniors and pensioners - $50,191 to $51,094.

Self-education expense deductions

The Government will also remove the exclusion for the first $250 deduction for prescribed courses of education. The first $250 of expenses relating to prescribed course education is currently not deductible. The measure aims to reduce compliance costs for individuals claiming self-education expenses.

MODERNISATION OF THE INDIVIDUAL TAX RESIDENCY RULES

In 2019 the Board of Taxation released a report on the reform of the individual tax residency rules with a key recommendation of using 'physical presence' in Australia as the primary measure of residency. In line with this and other recommendations in the Board of Taxation Report, the Government will replace the individual tax residency rules with a new modernised framework.

The primary test will be a 'bright-line' test where, a person who is physically present in Australia for 183 days or more in an income year, will be an Australian tax resident.

Those individuals who do not meet the primary test will be subject to secondary tests that depend on a combination of physical presence and measurable objective critera. The Board of Taxation recommend a day count test together with a new four factor test. The four factors referenced in the Report include:

1. The right to reside in Australia
2. Australian accommodation
3. Australian family
4. Australian economic connections.

EMPLOYEE SHARE SCHEMES – 'CESSATION OF EMPLOYMENT' NO LONGER A TAXING POINT

Employee Share Schemes (ESS) allow employers to attract, retain and motivate their employees by issuing options or shares to them, usually at a discount.

Currently, under the deferred taxing rules of ESS, an employee may defer tax until a later taxing point being the earliest of:

- Cessation of employment
- In relation to shares, when there is no real risk of forfeiture and no restrictions on disposal
- In relation to options, when the employee exercises the option and there is no real risk of forfeiture and no restrictions on disposal.

THE CHANGES TO EMPLOYEE SHARE SCHEMES

'Cessation of employment' has been removed as a taxing point under the deferred taxation rules. However, the change will only apply to ESS interests issued to employees in the income years commencing after the amending legislation is passed.

Secondly, the cap for qualification into the deferred taxation rules in respect of salary sacrifice arrangements by unlisted companies has been increased from $5,000 to $30,000.

FIRST HOME SUPER SAVER SCHEME (FHSSS) CHANGES AIMED TO INCREASE UPTAKE

The Government has continued its commitment to reducing pressure on housing affordability for aspiring first home owners through the First Home Super Saver Scheme (FHSSS). In the latest change to the scheme, the maximum releasable amount of voluntary concessional and non-concessional contributions has been increased from $30,000 to $50,000.

Voluntary contributions made from 1 July 2017 up to the existing limit of $15,000 per annum will apply towards the total amount able to be released. This increase will apply from the start of the first financial year after Royal Assent, expected to occur by 1 July 2022. The increased cap will ensure the FHSSS continues to help first home buyers raising a deposit more quickly, primarily through the special tax treatment of super and associated investment earnings.

TECHNICAL CHANGES

Additionally, to improve the operation of the FHSSS and assist applicants who make errors on the release applications, the Government will make four technical changes to the legislation underpinning the scheme by:

- Increasing the discretion of the Commissioner of Taxation to amend and revoke FHSSS applications
- Allowing individuals to withdraw or amend their applications prior to receiving a FHSSS amount, and allow those who withdraw to re-apply for FHSSS releases in the future
- Allowing the Commissioner of Taxation to return any released FHSSS money to superannuation funds, provided the money has not yet been released to the individual
- Clarifying the money returned by the Commissioner of Taxation to superannuation funds is treated as funds' non-assessable, non-exempt income and does not count towards the individual's contribution caps.

EASING OF RESTRICTIONS AROUND SUPERANNUATION

Australians can look forward to more opportunities to top up super balances as they approach retirement and beyond.

HAS THE WORK TEST REALLY BEEN ABOLISHED?

From 1 July 2022 Australians will no longer need to meet the work test to be eligible to make non-concessional superannuation contributions and receive salary sacrifice contributions.

Individuals aged 67-74 years will still have to meet the work test to make personal deductible contributions.

Currently individuals aged between 67-74 years of age are restricted from making certain contributions unless they are working at least 40 hours in a 30 day consecutive period, which is known as the work test.

DOWNSIZER CONTRIBUTIONS

From 1 July 2022, Australians over 60 years of age will be eligible to make downsizer contributions. Previously the downsizer contribution was limited to Australians over age 65. The other eligibility criteria for the downsizer contribution remain unchanged.

Originally introduced in the 2018 Budget, people aged 65 and over were allowed to sell their own home if they had owned it for at least ten years and then make a one off contribution of up to $300,000 into superannuation.

The government is proposing to open up the age for eligibility to include those from age 60 in order to free up stock and create movement in the property market.

SELF MANAGED SUPERANNUATION FUNDS (SMSFS) & RESIDENCY

SMSFs have long been disadvantaged from a tax perspective where SMSF members are absent from Australia for extended periods of time. In this budget the Government proposes to relax the rules such that the SMSF and members now only need to meet two rules to be eligible for concessional tax treatment:

- The fund must be established in Australia or hold an asset in Australia
- The members cannot be temporarily absent from Australia for more than five years.

This will enable SMSF members to be absent from Australia for longer than is currently the case, whether for work, education or due to COVID-19. It will also enable overseas members to continue to contribute to their Australian SMSF without penalty within the five year period. This is expected to apply from 1 July 2022.

LEGACY PENSIONS

Individuals will be allowed to exit certain Legacy Retirement Products including Market Linked Pensions within a two year window from the first financial year after the date of Royal Assent.

SUPERANNUATION GUARANTEE ELIGIBILITY THRESHOLD REMOVED

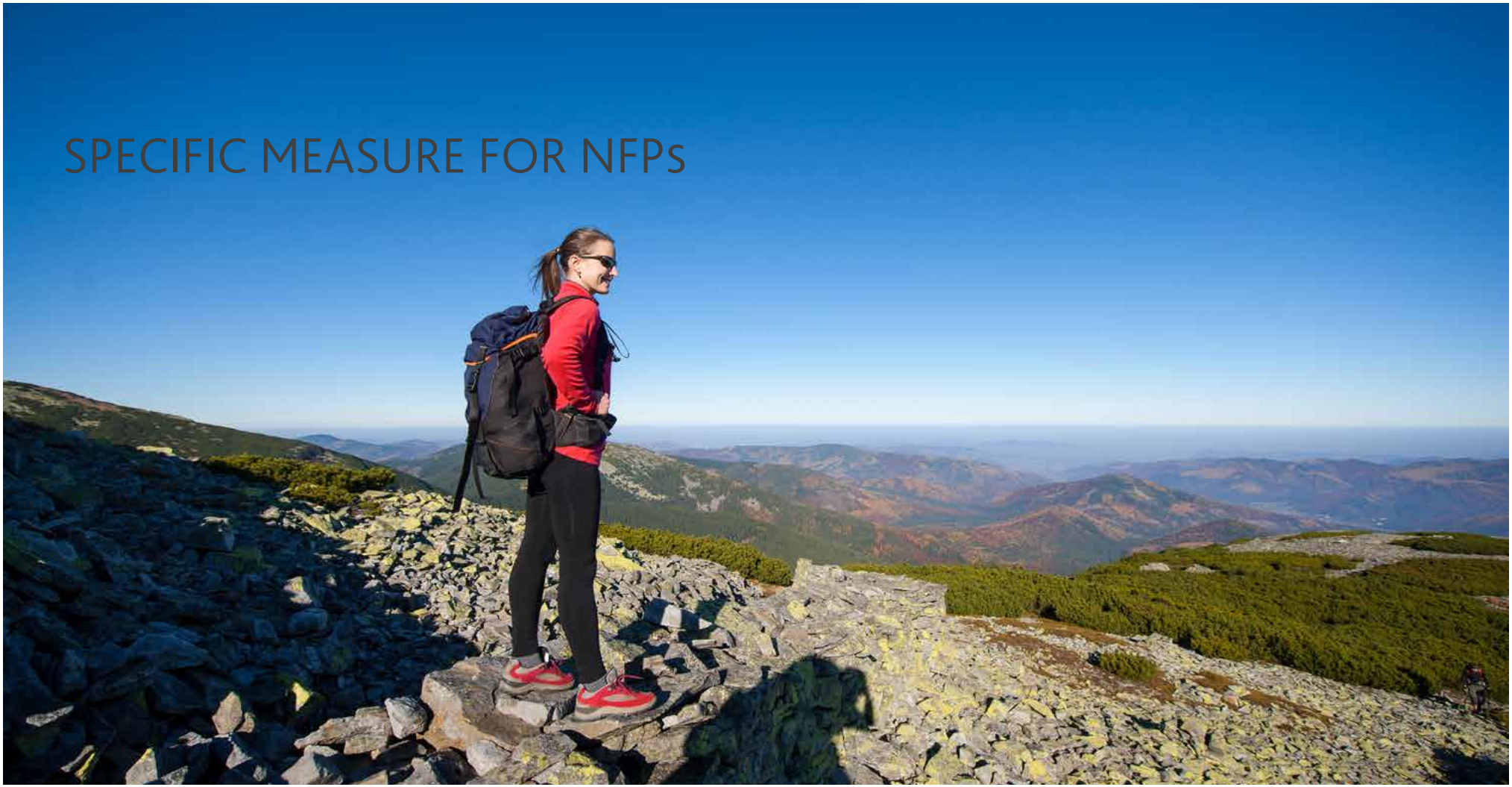
The Government is proposing to remove the $450 per month minimum income threshold which determines whether employees have to be paid the superannuation guarantee by their employer. This will begin from the first financial year after the proposed legislation receives Royal Assent.

The superannuation guarantee refers to the minimum percentage of earnings an employer needs to pay into their employee's superannuation fund. The superannuation guarantee is currently 9.5%, but will increase on 1 July 2021 to 10%.

Currently, where employees are paid $450 or more (before tax) in a calendar month, superannuation guarantee is payable on those wages. This threshold was introduced to prevent the administrative burden of facilitating the superannuation guarantee for employers with employees in casual employment arrangements.

This proposed measure will ensure lower income earners are not missing out on the benefit of having superannuation accrue for their retirement. In particular, an estimated 300,000 individuals would currently be eligible to receive these additional superannuation guarantee payments (as per the *Retirement Income Review*). Unsurprisingly, 63% of those who would be eligible for these payments are women which means, if implemented, this measure is a win for equity in the superannuation system.

SPECIFIC MEASURE FOR NFPs



NOT-FOR-PROFIT ENTITIES – INCOME TAX EXEMPTION STATUS TRANSPARENCY

The Government has announced proposed changes to enhance transparency of income tax exemptions for certain not-for-profit entities (NFPs).

Currently non-charitable NFPs can self-assess their eligibility for income tax exemptions, without an obligation to report to the Australian Taxation Office (ATO). 'Self-assess' means an organisation can work out for itself whether it is income tax exempt or taxable. Organisations that can self-assess their income tax status do not currently need to be endorsed by the ATO or obtain confirmation of their income tax status from the ATO. There is a worksheet available on the ATO website that NFPs, that are not charities, can use to self-assess their income tax status.

It is proposed the ability to 'self-assess' will change, such that the ATO will require income tax exempt NFPs with an active Australian Business Number (ABN) to submit online self-review forms annually. These forms will utilise the information they ordinarily use to self-assess their eligibility for the exemption. It is proposed this measure commence from 1 July 2023.

The Government believes this measure will ensure that only eligible NFPs are accessing income tax exemptions.