KordaMentha

Federal Budget 2020

Jobs Jobs Jobs

6 October 2020

The 2020/21 Federal Budget is unashamedly a job creation blueprint.

It has a three-prong attack:

(i) It clearly focuses on incentives for employers to re-employ those who have lost their jobs due to the Pandemic, or retain those employees currently on JobKeeper when this Government Wage Subsidy finishes in March 2021;

(ii) The retrospective drop in individual tax rates effective 1 July 2020, is a welcome relief for all taxpayers. The aim is to put the tax cuts back into the economy by encouraging spending; and

(iii) Several expenditure related tax breaks are aimed at encouraging business to expand their capital capacity in the hope that it will generate more jobs by increasing demand for such products.

Will the strategy work? Time will tell.

What is pleasing is that there were no changes to superannuation concessions, or tax nasties announced for self-funded retirees. We will enjoy that status as it will not last. We will have to pay for this expenditure someday.

Reduction in Individual Tax Rates

As foreshadowed, the Morrison Government announced they will bring forward Stage Two of their personal income tax plan by two years. These changes are targeted personal income tax cuts focused at low- and middle-income earners. The reduction in individual income tax rates has been backdated to 1 July 2020 and is designed to inject cash quickly back into the economy.

The Low-Income Tax Offset has increased by $255 to $700. The Low-and Middle-Income Tax Offset (LMITO) up to a maximum of $1,080 and has been extended for a further twelve months.

The Treasurer also confirmed there will be no bringing forward of the further previously announced Stage Three individual tax cuts and these will commence on 1 July 2024.

As a result of tonight's announcements, the effective tax free threshold where an individual will pay no income tax is $21,900.

If you qualify for the Seniors and Pensioner Tax Offset the tax-free threshold is up to $30,300.

Below are the proposed new resident Australian tax tables from 1 July 2020.

Post Budget 2020/21 Resident Australian Tax Tables 1 July 2020:

Taxable Income $	Rate $		% on Excess	Medicare		Total
0 - 18,200	Nil		Nil	0%		0%
18,201 – 45,000	Nil	b	19%	2%	a	21%
45,001 – 120,000	5,092	c	32.5%	2%		34.5%
120,001 – 180,000	29,466	d	37%	2%		39%
180,001 +	51,666		45%	2%		47%

a: Medicare is not payable where your taxable income is less than $22,801 (2019/20)

b: Low Income Tax Offset (LITO) of $700 (previously $445) available to taxpayers whose taxable income is less than $45,000

c: Low Middle Income Tax Offset (LMITO) of up to $1,080 is carried over from the 2020 tax year to taxpayers whose taxable income is between $48,000 and $90,000

d: Low Middle Income Tax Offset (LMITO) phases out at the rate of $0.03 per dollar between $90,000 and $126,000

Revisiting my Financial Structure for passive investments

Can I reduce my overall tax burden by having passive investments taxed outside the Superannuation System? For example, via a trust or individual names?

For those with passive investments in the Superannuation System above the $1.6 million pension cap and in pension phase, consideration should be given to identifying where such investments should be held. You could consider accessing a portion of this accumulation balance and investing the proceeds outside of the superannuation environment. This could result in you gaining access to the reduced personal tax rates and therefore lowering your overall family tax rate.

Accessing retained earnings from Private Companies

For those with private companies, strategies that utilise those companies to hold passive investments need to be revisited. Overlaying the reduced personal tax rates announced tonight (refer above) may cause you to consider accelerating the accessing of these profits.

With the 2021 Company tax rate of 26% already in effect from 1 July 2020 for companies in receipt of income from carrying on active businesses, now is the time to consider how you optimise the accessing of the retained profits of your Company, especially if there are available Franking Credits.

For those small businesses utilising corporate structures, care needs to be taken due to the changes in corporate tax rates from 1 July 2020, to ensure that you are effectively managing your Company's Franking Account.

Below is an example of how tonight's announced personal tax changes could impact the payment of a fully franked from a Company:

Tax Rate Impact of receiving accessing Fully Franked Dividends from a Private Company:

If your taxable income was comprised of only fully franked dividends from a Private Company, the following is an example of the Budget impact of the reduction in personal tax rates on the cash dividend:

	2019/20 $	2020/21 $
Cash Dividends Received	81,418	85,670
Franking Credit at 26% (27.5% - 2020)	30,883	30,100
Taxable Income	112,301	115,770
Tax and Medicare	31,294	30,407
Less: LMITO	(411)	(307)
Less: Imputation Credit	(30,883)	(30,100)
Tax Payable	0	0
Cash Dividend Difference:		4,252

No changes in the Division 7A Anti Avoidance Provisions for Private Companies

The 2018–19 Budget, announced it would further clarify the operation of Division 7A.

However, on 30 June 2020, the Government announced that the start date for the previous Budget announcements will be revised. They will now apply from income years commencing on or after the date of Royal Assent of the enabling legislation. Again, it is important to discuss these prospective changes with your advisor and review your current group structure.

Tonight's announcements have not altered the uncertainty around Division 7A. We hope that clarification of the rules will happen at some time this year. We will keep you posted.

Business Tax Changes

There were many incentives for businesses announced in tonight's Federal Budget.

We have detailed those in the attached Appendix.

Private Health Insurance changes

The Government announced that it will increase the age of dependants from 24 to 31 years and remove the age limit for dependants with a disability. This means if you have children still living at home and studying aged over 24, they can remain on your Family Private Health Insurance.

Aged Care – Increase in availability of at home packages

The Government announced an increase of 23,000 in the availability of home-care packages over the next 3 years.

This should reduce waiting times for such packages.

Superannuation – No news is good news

There were no other superannuation announcements tonight impacting Self-Managed Superannuation Funds.

This means the Government has maintained the reduction in the minimum pension withdrawal by 50% for the 30 June 2021 year.

For Public Offer Superannuation Funds, the Government has announced the following changes:

(i) The Government will introduce systems to reduce multiple superannuation accounts held by individuals.

(ii) Individuals will be able to access benchmarking information in relation to performance of Public Offer Superannuation Funds, to ensure they become more transparent and accountable for their fees and investment performance. Funds will have their fees and performance available on a new Government website and performance tests will be applied.

What now?

We will await the Opposition's response to the proposed individual tax rate reductions.

In the meantime, you should take the opportunity to revisit your own personal financial strategy and the impact tonight's announcements may have on it.

ANTHONY JACKSON