BusinessPlus+ Newsletter

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Federal Budget 2020 – Some Business Observations

To obtain a summary overview of the recent Federal Government Budget for 2020/21, please click on the link HERE.

The Budget was built on key assumptions, including a vaccine for COVID-19 next year and no future lockdowns.

Businesses will welcome the substantial new expensing of capital expenditure regime and loss carry-back measures.

Cash availability for households will be boosted by the accelerated personal income tax cuts. Australia's economic recovery will rely upon businesses and households spending, rather than saving, the additional cash available.
In this article, we examine some of the key announcements affecting business.

Temporary Full Capital Investment Expensing

Businesses with an aggregated annual turnover of up to $5 billion will be able to deduct the full cost of eligible capital assets acquired after 7.30 pm on 6 October 2020 (Budget night) and, **importantly, used or installed ready for use by 30 June 2022**. Eligible capital expenditure will apply to new depreciable assets and the cost of improvements to existing eligible assets. **For businesses with an aggregated annual turnover of less than $50 million, full expensing also applies to second-hand assets.**

Businesses with an aggregated annual turnover between $50 million and $500 million can deduct the full cost of eligible second-hand assets under $150,000 purchased by 31 December 2020. Businesses that hold assets eligible for the enhanced $150,000 instant asset write-off will have an extra 6 months, until 30 June 2021**, to first use or install those assets.**

Small businesses (aggregated turnover of under $10 million) can deduct the balance of their simplified depreciation pool at the end of the income year while full expensing applies. Provisions preventing small business from re-entering the simplified depreciation regime for five years will continue to be suspended.

Observation

This is a massive announcement for businesses that are trading and have the ability to finance capital expenditure. **Importantly, the eligibility for businesses will be key – the assets must be acquired after 7.30 pm on 6 October 2020 (Budget night) and must be first used or installed ready for use by 30 June 2022.**

The question of when a capital asset is used, or installed ready for use, is a factual question and we expect that, as we get closer to the key date of 30 June 2022, substantiation will be key. **Proper planning will be necessary to ensure that this requirement is satisfied.**

Further, the full expensing will apply in the first year of use, and not the year of purchase. This means that expenditure on the capital asset may be deductible in either the 2021 or 2022 financial years.

Temporary Loss Carry-Back- Companies Only

The Budget announced **that companies** will be able to carry-back tax losses incurred in the income years ending 30 June 2020, 30 June 2021 and 30 June 2022 to offset income from the income year ended 30 June 2019 onwards. Currently, companies can only carry tax losses forward to offset income from a future income year.

The temporary measure will be available to corporate tax entities with an aggregated turnover of less than $5 billion. **A refundable tax offset will be generated in the year the loss is made. However, the refund will be limited so that the amount carried back is not more than the taxed profits of the earlier year and does not generate a franking account deficit.**

Companies will make the election to use the loss carry-back provisions when lodging their tax return for the income years ending 30 June 2021 and 30 June 2022.

Observation

The temporary loss carry-back rules are a welcome relief for eligible companies that have been impacted by COVID-19. **The measures effectively represent a cash flow benefit to these businesses by allowing them to reclaim some of the tax paid in limited previous years when they were profitable.**

Increase in Small Business Entity Turnover Threshold

The Government announced in the Budget an increase to the small business entity turnover threshold from $10 million to $50 million – **but only for the following specific tax concessions:**

- **From 1 July 2020**, eligible entities below the threshold will be able to ***immediately deduct certain start-up expenses and certain prepaid expenditure*;**
- **From 1 April 2021**, eligible entities below the threshold ***will be exempt from the 47% FBT on car parking and multiple work-related portable electronic devices (such as phones or laptops) provided to employees.***
- **From 1 July 2021**, eligible entities below the threshold ***will be able to access the simplified trading stock rules, remit PAYG instalments based on GDP adjusted notional tax, and settle excise duty and excise-equivalent customs duty monthly on eligible goods under the small business entity concession.***

Observation

The increase to the small business entity turnover threshold from $10 million to $50 million is welcome, and it's expected that more business will be able to now benefit from the specific concessions and simplified rules. **The Government has predicted that this change will simplify eligibility and reduce red tape for around 20,000 businesses.**

However, the increase to the threshold is only relevant for the specific concessions that are noted above. The eligibility turnover thresholds for other small business tax concessions (such as the small business CGT concessions and the small business restructure rollover) will remain at their current levels.

This will create further confusion and uncertainty as even more turnover thresholds will apply for different concessions small business entities; now we have $2 million, $10 million and $50 million turnover caps - depending on the relevant concession – confusing isn’t it?

Budget Scorecard

Not everything on the “Business Wish-list” comes home in the announced Budget, however perhaps some of these will be reflected in the May 2021 Federal Budget – effectively the pre-election budget. Please refer to the budget scorecard summary on the next page for details of items that missed the cut, that would have been useful for taxpayers generally and businesses specifically.

Proposed measures	Federal Budget 2020-21
Short-term	
Measures to address domestic unemployment and underemployment rates	
Bring forward personal income tax cuts	✓
Temporarily suspend or significantly reduce HELP loan repayments	X
Further corporate tax rate cuts for base rate entities	X
Reducing employment on-costs	X
Short-to-medium term	
Measures to stimulate growth of gross domestic product	
Extend general capital allowance incentives on a longer-term or permanent basis	✓✓
Introduce targeted capital allowance measures for specific industries (e.g. agriculture, import replacement, education and construction)	X
Long-term	
Measures to improve the sustainability of our tax system	
Reform of the GST	X
Land tax and stamp duty reform in conjunction with changing the rate of GST	X
Review the CGT framework e.g. rate of concessions and availability of exemptions	X
Introduce a universal investment allowance that provides depreciation claims over a 5-year period to simplify the capital allowance regime	X