

On Tuesday,
11 May 2021,
Treasurer Josh
Frydenberg handed
down the 2021-22
Federal Budget,
his 3rd Budget.

2021/22 Federal Budget Key points

- The Australian economy bounced back at its fastest pace ever over the last half of 2020.
- As a result of the pandemic, the deficit is expected to reach \$161bn in FY 2021, improving to \$106.6bn in FY 2022, before further improving to \$57bn in FY 2025.
- The FY 2021 deficit is \$52.7bn lower than was expected at last year's Budget in October 2020.
- JobKeeper has played a role with nearly one million jobs added since May 2020.

“

Our plan is working. Australia's economic engine is roaring back to life

”

- The Government believes this Budget will consolidate these gains and put the economy on course for the unemployment rate to fall below 5%, reaching 4.75% by the June quarter 2023.
- Real GDP is forecast to grow by 1.25% in FY 2021, rising to 4.25% in FY2022 and 2.5% in FY 2023.
- The Government has committed \$291bn (or 14.7% of GDP) in direct economic support for individuals, households and businesses since the onset of COVID-19.
- The Budget also adds to the Government's existing infrastructure investment pipeline with a further \$15.2bn of infrastructure commitments.

The Treasurer acknowledged that sustainable recovery requires a strong private sector which will in turn pay down Government debt.

PRIVATE BUSINESS MEASURES

Temporary expensing regime

This measure has been extended to 30 June 2023 and allows full write off of the cost of assets (eligible depreciating assets). This includes second-hand assets for most businesses (turnover less than \$50m).

For assets acquired AND installed and ready for use by 30 June 2023	A write-off is available up to asset cost
From 7:30pm on 6 October 2020 – 30 June 2023	Full cost*

Exclusions from these measures include:

- Buildings and other capital works
- Assets not located in Australia
- Assets not used in carrying on a business
- Cars that exceed the car cost limit (currently \$59,136)

Depreciation of intangible assets

Taxpayers that own intangibles like patents, registered designs, copyrights and in-house software will be allowed to self-assess the effective lives of intangible depreciating assets from 1 July 2023.

Aside from changes to intangibles, "normal" depreciation arrangements apply from 1 July 2023.

Loss carry back rules

In tandem with the extension of the temporary expensing regime, companies that paid tax in an earlier year and have subsequently incurred a tax loss can claim a cash refund.

The maximum carry back is limited by the company's franking account balance.

Tax paid in these years	May be eligible for refund in these tax loss years
2018/19	2019/20
2019/20	2020/21
2020/21	2021/22
	2022/23*

*2021/22 Budget announcement provided for extension of the measure for a further year to 2022/23 – this aspect of the loss carry back rules is not yet law.



SMEs and government contracts

The government has committed funds to strengthen SME participation in government supply contracts.

ATO concierge service

Effective 1 July 2021, ATO will introduce an ATO engagement service to support businesses looking to invest in Australia.

The digital economy strategy

The pandemic and challenges of lockdowns, especially in Victoria, has highlighted for many businesses new ways of doing business. \$1.2b of the budget has been allocated to building Australia's digital future. Digitisation of small business has featured as a priority.

E-invoicing

Adoption of E-invoicing becomes mandatory for all government agencies from 1 July 2022. The Government is keen to promote and accelerate the adoption of e-invoicing by businesses. This allows government to make faster payments to their suppliers.

Digital solutions

The Government has committed additional funds to allow small business (up to 20 staff) to access advisory services covering digital and general business topics.



Women's budget statement

A Women's budget statement was included in the Federal Budget. The pandemic highlighted the disparities in the working lives of men and women. There is the potential for businesses to explore increased use of home-based work and other workplace flexibility that help reduce barriers for women entering (or increasing) participation in the workforce

PERSONAL MEASURES

Individual income tax rates

The Low and Middle Tax offset will be extended for another year to 30 June 2022. This provides a reduction of tax up to \$1,080 for those with income levels ranging between \$48,000 and \$90,000, tapering out in full at \$126,000.

There are no changes to the individual tax rates and mean the "effective" tax free threshold (taking into account the maximum Low Income Tax Offset of \$700) remains at \$21,900.

Taxable Income	Tax on this income*
0 - 18,200	Nil
18,201 - 45,000	19% over \$18,200
45,001 - 120,000	\$5,092 + 32.5% over \$45,000
120,000 - 180,000	\$39,467 + 37% over \$120,000
180,000 +	\$51,667 + 45% over \$180,000

*not including Medicare levy

CPI increases impact the Medicare levy low income threshold, the threshold for singles increases from \$22,801 to \$23,226 and the family threshold will be increased from \$38,474 to \$39,167 (+ \$3,597 for each dependent child)

Stage 3 tax cuts from 1 July 2024

Personal tax cuts (previously legislated) will come into effect. A new 30% marginal tax rate will apply for income levels between \$45,000 to \$200,000 from 1 July 2024.

Self-education expenses

The \$250 reduction which currently applies to self-education expense deductions is expected to be abolished, subject to legislation.

Individual residency tax rules

In the context of globally mobile individuals, the residency test will be replaced with a “new, modernised framework”. A person who is physically present in Australia for 183 days or more in any year will be treated as an Australian resident (primary test). Individuals that do not meet the primary test will be subject to secondary tests that depend on a combination of physical presence and “measurable objective criteria”.

No changes are indicated to the temporary resident regime which applies to persons on temporary visas.

Employee Share schemes

Taxing point changes

The Government will remove “cessation of employment” as a taxing point for tax-deferred employee share schemes.



The change does not impact employees that are tax up front on the issue of shares or options.

Other changes

Other related changes are designed to cut “red tape” and impact businesses contemplating ESS arrangements.

Migrant waiting period

A newly arrived resident waiting period applies across most welfare payments from 1 January 2022. This will mean a consistent four-year newly arrived resident’s waiting period. Currently migrants are able to access benefits after 1 year.

SUPERANNUATION

Scrapping of eligibility threshold

The budget proposes changes to superannuation, scrapping the \$450 monthly minimum on which contributions are payable. Subject to passing legislation, this means employer super contributions would be payable on the first dollar paid to employees – including casuals and part time staff.

Year	Rate of SG Contribution
2022	10.0%
2023	10.5%
2024	11.0%
2025	11.5%
2026	12.0%

Concessional contribution limit

From 1 July 2021, the concessional contribution limit increases from \$25,000 to \$27,500.

Non concessional contribution limit

Non-concessional or after-tax contributions increase to \$110,000 per annum (or \$330,000 every three years) using the year-bring forward rule. An individual's superannuation balance as at 30 June of the prior year impacts whether an individual can use the bring forward rule as follows:

Individual's Total Super Balance as at 30 June 2021	NCC bring forward rules
>\$1.7m	\$0 – not eligible to make NCCs
\$1.59m > \$1.7m	\$110,000, no bring forward
\$1.48m > \$1.59m	\$220,000, 2 year bring forward period

Work test

The Work Test will no longer apply from 1 July 2022 for non-concessional contributions allowing self-funded retirees to boost their retirement savings. This applies to individuals aged between 67 and 74.

The Work Test was previously legislated to change from age 65 to 67; a reminder that the work test is met when you work at least 40 hours of gainful employment in 30 consecutive days.



Downsizer Contributions

From 1 July 2022 if you are aged 60 or over, you can contribute up to \$300,000 (or \$600,000 per couple) from the sale of proceeds of a principal place of residence, where it has been owned for at least 10 years – even if the individual's total superannuation balance is over \$1.7m. The age that this contribution could have been made was previously from age 65.

Superannuation Pensions

Minimum withdrawal requirements

Minimum pension requirements will lose the 50% reduction introduced as a response to the pandemic. From 1 July 2021 a pensioner will be required to take the full minimum pension. Please keep this in mind for cash flow planning. The percentage of the capital value on the previous 30 June funding your pension that needs to be withdrawn each year is as follows:

Age	Minimum % withdrawal (in all other cases) %
Under 65	4.00%
65-74	5.00%
75-79	6.00%
80-84	7.00%
85-89	9.00%
90-94	11.00%
95 or older	14.00%

Transfer balance cap increase from 1 July 2021

The maximum capital value of assets you can apply to fund a concessional pension increases from \$1.6m to \$1.7m from 1 July 2021. This change only applies to new pensions.

BUSINESS TAX

Other Reminders

Company tax rate reduction

The company tax rate for businesses (base rate entities) with turnover under \$50m reduces from 26% to 25% from **1 July 2021** (The rate stays at 30% otherwise). There may be good reason if your group's overall effective rate of tax is above the applicable corporate rate, however it serves as a useful benchmark of the tax efficiency of your group.

Pay as you go (PAYG) instalments

June 2021 Activity statements (and/or instalment notices) will soon be issued in late June by the ATO. If business profitability/ investment income has significantly changed over the year (for instance due to asset write-offs or as a result of downturn) then it is an opportune time to vary the PAYG instalment. In some cases, an additional credit may be available for instalments paid in earlier quarters. Please be mindful of the due date for lodgement of the statement (possibly as early as 28 July 2021) as late variations cannot be accepted. If you are concerned your business is likely to be in a loss/ refund position, it's a good reason to do some tax planning.

Payments to contractors

A business cannot claim deductions for payments where PAYG withholding requirements have not been met. Payments to workers (employees or contractors) must be carefully managed to ensure that:

- tax is withheld at the appropriate rate; and
- they are reported to the ATO.

Sometimes the distinction between a worker being an employee or contractor is a grey one. A **decision tool** is available on the ATO website. It is important to note that accepting an ABN from an individual who might otherwise be treated as an employee for tax and super purposes does not absolve the payer from risk in this area.

Tip: onboarding of individual contractors must consider the worker's status as a contractor or employee.

If you're unsure, contact us.



Reporting of contractor payments

Taxable payments annual reports (TPAR) apply to businesses providing any of the following services and certain government entities:

Building and construction

Cleaning

Couriers (or road freight)

Information technology

Security, investigation or surveillance

The 2021 report is due by 28 August 2021.

If your business has been the recipient of government funding, government agencies (including state/ federal/ territory government departments) have reporting obligations under the regime.

TPAR are not required to be distributed to payees, but it may be sensible for payers to distribute them (and when in receipt of such payments, follow them up from payers). Mistakes happen and any identified discrepancies may be corrected.

The ATO uses TPAR information for data matching purposes.

Single Touch Payroll

From 1 July 2021, the ATO extends the Single Touch Payroll (STP) reporting regime. From this date, employers must report **payments to related individuals** – including family members, directors or shareholders of a company and beneficiaries of a trust (closely held payees). There are some choices around the method of reporting, however superannuation and PAYG withholding obligations are expected to be paid and reported ongoing, and throughout the year consistent with amounts drawn from the business.

In addition, PAYG withholding disclosures are still required to be declared on monthly/ quarterly activity statements (according to the relevant cycle)

Hiring staff

Federal and/or state funding may be available for your next hire. Please see information per the links below:

[JobMaker Hiring Credit](#)

[Jobs Victoria Fund](#)

[Boosting Apprenticeship Commencements](#)
wage subsidy (5 October 2020 –30 September 2021)

Prospective candidates (jobseekers including those aged 17-24) might be encouraged to upskill through a [JobTrainer](#) course.



OTHER NEWS

Welcome to Allison Olsen

We are pleased to introduce you to our newest staff member, Allison Olsen. Allison started with Virtue in April after a career break raising three children. She brings extensive accounting and tax experience and a much-needed extra pair of hands to our team. She has hit the ground running in the lead up to our last lodgement due date of 17 May!



How can Virtue Private Advisory help?

Here are some ways that Virtue Private Advisory helps business and their owners:

- Strategic tax planning;
- Reviewing tax structure and efficiency of your business/ investment asset holdings;
- Providing tax advice in relation to a particular transaction;
- Managing your group's compliance obligations;
- Accounting assistance;

For more details about Virtue Private Advisory visit our website virtuepa.com.au

Get in touch with us

hq@virtuepa.com.au

+61 (0) 417 146 597

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Superannuation content contributed by Foundation Advisory Pty Ltd

AFSL 486236

ACN 53 166 310 818

foundationadvisory.com.au

(03) 9878 7647



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