ASPIRE WEALTH GROUP
BUILDING YOUR BUSINESS & PLANNING YOUR FUTURE

FEDERAL BUDGET REPORT

Federal Budget 2022-23 Overview

The key takeaways for your personal and business finances

Contents

Overview

The 2022-23 Federal Budget is aimed at moving business into the digital era with both carrots and sticks in the budget

The 2022 Federal Budget's changes to tax laws are focused almost exclusively on businesses, specifically on lifting digital capability and adoption. The Government is providing $1.0 billion to businesses investing in digital technologies such as cloud computing, cyber security enhancements and online platforms.

For companies that invested in appropriate accounting software, the budget will give them the ability to choose to have their pay as you go (PAYG) instalments calculated based on current financial performance. Both these measures should increase business' cashflow.

However, moving businesses onto complying digital platforms allows the ATO to expand its audit activity and data-matching capabilities. We see this coming through the further investment in this year's budget into the Tax Avoidance Taskforce (that has had significant success with high wealth individuals) and the initiative to digitise trust reporting and processing.

Significant tax changes for personal taxpayers were missing in this year's budget, with the Government preferring to focus on other incentives such as cost of living relief and improving paid parental leave.

Key Takeaways

The 5 key points of the Federal Budget 2022-23

Support for businesses

COVID-19 concessions and the Australia-UK Free Trade Agreement continue to provide support for businesses.

Upskilling & digital incentives

Small businesses will be able to deduct an additional 20% of costs incurred to upskill staff and to invest in technology and digital adoption.

Support for costs of living

Cuts to fuel excise tax, increases to the LMITO and Medicare levy low-income threshold will provide some relief from increased costs of living.

ATO focusing on trusts

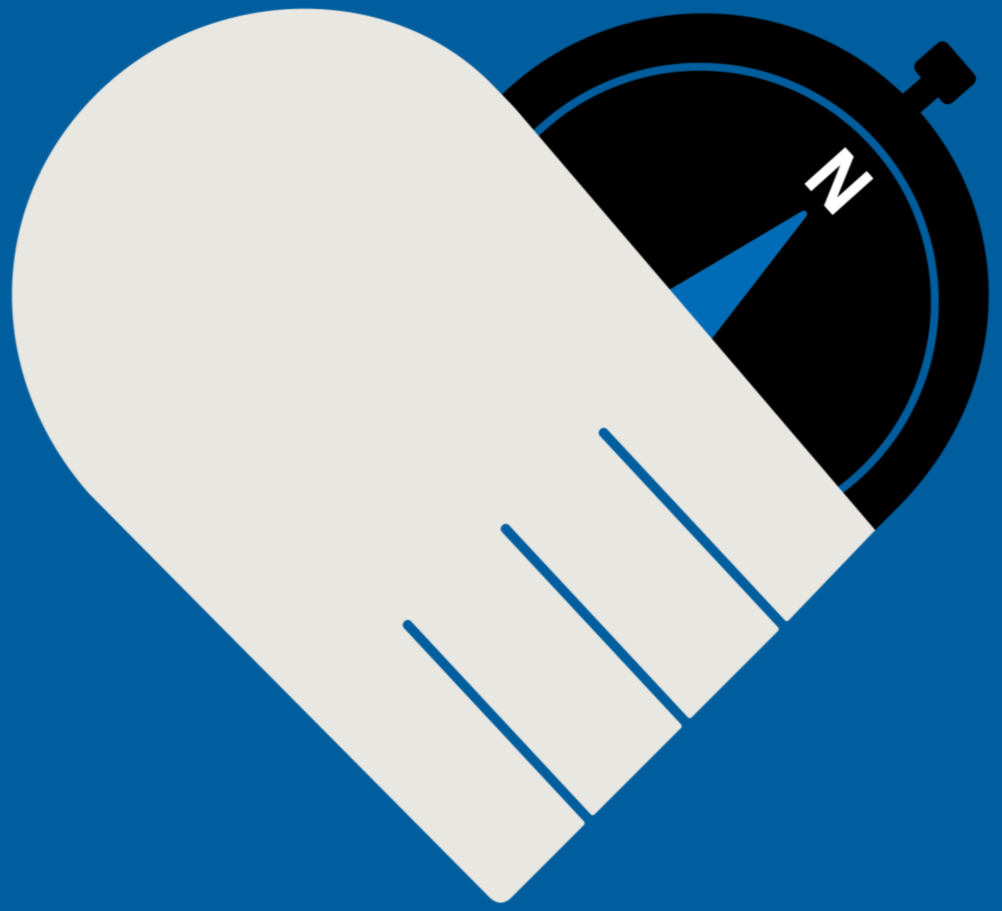
ATO given additional funds for compliance activity. Targets include private groups, trusts and high wealth individuals.

Expanded Employee Share Schemes

Regulatory reforms will enable employers to make better use of Employee Share Schemes to attract and retain staff.

Personal Finances

→ Helping Australians with the cost of living via fuel excise cuts and tax offsets



Helping Australians with the cost of living

The Budget is providing cost of living relief through a temporary reduction in fuel excise and a tax offset for low and middle income earners.

Temporary Reduction in Fuel Excise

The excise duty for fuel and petrol will be reduced by 50% for 6 months, with consumers expected to save approximately 22 cents per litre. The measure will take effect from 12.01am on 30 March 2022, however consumers will only see the effects in a few weeks as fuel stocks are turned over. To ensure the savings are passed on to consumers, the competition watchdog will be monitoring retailers.

Importantly, at the end of the six months at 11:59pm on 28 September 2022, the excise duty will revert to the previous rates and include indexation that would have occurred during the previous 6-month period.

Cost of Living Tax Offset increased

The Budget will increase the existing low and middle income tax offset (LMITO) by $420. Accordingly, the maximum benefit has increased for the 2021-22 income year to $1,500 for individuals and $3,000 for couples.

Minimum super pension drawdowns halved for another year

The Federal Government announced the extension of the current 50 per cent reduction in the minimum superannuation drawdown requirements for account-based pensions (ABPs) and similar products. This measure was put in place in March 2020 and has now been extended to **30th June 2023**.

Increasing the Medicare Levy Low-Income Thresholds

From 1 July 2021, the Medicare low-income thresholds for seniors, pensioners, families and singles will increase.

	2020-21	2021-22
Singles	$23,226	$23,365
Families	$39,167	$39,402
Singles (Seniors and Pensioners)	$36,705	$36,925
Families (Seniors and Pensioners)	$51,094	$51,401

For each dependent or child, the family income thresholds above increase by $3,619 (up from $3,597).

Business Finances

→ More deductions, further incentives and encouragement for businesses to enhance their digital capabilities

COVID-19 tax concessions

Certain state and territory COVID-19 business support programs treated as non taxable (NANE) income will be extended to 30 June 2022.

Some types of COVID-19 government grants and support programs are treated as non-assessable non-exempt (NANE) income. The treatment of these payments as non taxable (NANE) income will be extended to 30 June 2022.

Note: The NANE tax treatment only applies to eligible COVID-19 grants directed at supporting businesses in geographical areas that have been significantly disrupted by public health directives.

Click here for full list of NSW and VIC COVID-19 grants and support programs that will be treated as non taxable (NANE).

COVID-19 tests, including Polymerase Chain Reaction (PCR) and Rapid Antigen Tests (RAT), will be made tax deductible for businesses and employees.

From 1 July 2021, work-related COVID-19 test expenses incurred by individuals will be tax deductible. This applies both when an individual is required to attend the workplace or has the option to work remotely.

For businesses, fringe benefits tax (FBT) will not apply for COVID-19 tests provided to employees for the purposes of allowing employees to attend a place of work.

This change will take effect from the beginning of the 2021-22 tax year and will be in place permanently.

Boost to small businesses

Small businesses are being given a boost by two incentives – the skills and training boost and the technology investment boost.

<u>Skills and Training Boost</u>

Businesses with aggregated annual turnover of less than $50 million will be able to deduct an additional 20 per cent of expenditure incurred on external training courses provided to their employees. The external training courses will need to be provided to employees in Australia or online, and delivered by entities registered in Australia.

The boost for eligible expenditure incurred from Budget Night to 30 June 2022 will be claimed in the 2023 income year, while the 20% boost for expenditure incurred in the 2023 and 2024 income years will be included in the income year the expenditure is incurred.

<u>Technology and investment boost</u>

This incentive is aimed at encouraging small businesses to invest in depreciating assets that support digital adoption technologies, such as portable payment devices, cyber security systems or subscriptions to cloud-based services.

Businesses with aggregated annual turnover of under $50 million will be able to deduct an additional 20 per cent of eligible expenditure for the 2022 and 2023 income years.

The 20% boost for eligible expenditure incurred from Budget Night to 30 June 2023 will be claimable in the 2023 income year. There is an annual cap of $100,000 of eligible expenditure that applies to this measure, i.e. a maximum additional boost deduction of $20,000 can be claimed per eligible year.

Expanded Patent Box Scheme

Expanding the Patent Box Scheme announced in the 2021-22 Budget to agricultural and low-emissions technology sectors

The Patent Box Scheme will be extended to companies working on innovations in the agricultural and low-emissions technology sectors. The Scheme will apply to patents linked to agricultural and veterinary chemical products listed on the APVMA, PubCRIS register, or eligible Plant Breeder's Rights.

Income derived from eligible patents that have been developed in Australia in each sector will be taxed at a concessional rate of 17%, down from the current rate of 30% for large businesses and 25% for SMEs.

Likewise, the Scheme will apply the 17% concessional tax rate to profits generated by patents on low emissions technologies where the research and development took place in Australia.

This measure will be available to patents granted or issued after 29 March 2022 and for income years starting on or after 1 July 2023 for these two sectors.

Australia-UK Free Trade Agreement

The Australia–UK Free Trade Agreement (FTA), signed on 17 December 2021, will benefit Australian households and businesses.

Key benefits of this agreement include:

- Elimination of tariffs on over 99 per cent of Australian goods exported to the UK to create new export opportunities and jobs for businesses.
- Australian households and businesses will save around $200 million a year as tariffs on British imports into Australia on almost all UK goods (such as cars, whisky, confectionery, biscuits and cosmetics etc.) are being phased out within 5 years.
- Mutual recognition of professional qualifications and greater certainty for skilled professionals entering the UK labour market.
- Australian businesses will have the guaranteed right to bid for a greater variety of UK government contracts in a procurement market.

Tax Audits and reviews

Increased spending and focus on tax integrity measures

The 2022 budget evidences the government's continued focus on business tax compliance, trust income splitting and high net wealth individuals. In isolation, the announced measures may not seem significant. However, this is not the case when considered in light of the approach adopted by the ATO over the last 2 months on certain targeted compliance measures:

1. ATO cracking down on trust income splitting arrangements

Section 100A targets situations where income flows to someone other than the beneficiary named in the distribution. In the past, this would commonly occur by parents making a distribution to their adult children but retaining the funds in the trust, or making the money available to themselves. Such arrangements are referred to as 'reimbursement agreements' and can be struck down by Section 100A.

The ATO's intention to focus on trust income splitting arrangements is highlighted by the recent release of the following ATO guidance:

- Taxpayer Alert 2022/1 – this alert confirms that Section 100A will apply to arrangements where parents benefit from distributions made to children.
- Draft Taxation Ruling 2022/D1 – which discusses the application of 100A
- Draft Practical Compliance Guideline 2022/D1 – which discusses the ATO's approach to audits of trust income splitting arrangements.

Where section 100A applies:

- The trustee is taxed at 47%
- the CGT 50% Discount is disallowed, and
- No time limits apply to prevent income tax returns from being reviewed and amended, i.e. the ATO is not limited to reviewing the last four years.

Tax Audits and reviews

2. ATO cracking down on the allocation of profits within professional firms

The ATO has recently released [Practical Compliance Guideline PCG 2021/4](), which sets out the ATO's compliance approach for assessing risk related to the allocation of professional services income to the principal and their related entities.

PCG 2021/4 is about arrangements where:

- Taxpayers redirect their professional services income from a business to an associated entity such as a trust, and
- The outcome is that there is a significant reduction in tax.

The PCG will come into effect from 1 July 2022. It is therefore important to be considering how these new guidelines may affect your current arrangements, the tax you are paying and your risk of audit.

3. Digitalising trust income and reporting and increased tax compliance expenditure

From these measures, it is not surprising that the government has in this budget announced further measures related to the digitalisation of trust data and further resources being allocated to tax integrity and compliance measures. Specifically:

- The government will digitalise trust and beneficiary reporting and processing. The stated objective is to increase pre-filling and automating ATO assurance processes.
- The government will provide an additional $650 million to the ATO to extend the operation of the Tax Avoidance Taskforce by two years to 30 June 2025.

Expanding access to employee share schemes

The Government will remove regulatory barriers and expand access to employee share schemes

Employers, especially start-ups, will benefit as employee share schemes are a powerful tool for attracting and retaining staff. Employees at all levels will be able to directly share in the business growth they helped to generate.

The changes include:

- Removing the current $5,000 "value cap" that limits the value of shares that can be issued to non-executive staff each year.
- Allowing employers to offer an unlimited number and value of shares provided the employee is not charged more than $30,000 each year.
- Where options are issued, the annual $30,000 cap can be accrued over five years, for a total value of $150,000.
- No monetary cap where the employee is able to immediately take advantage of a planned sale or listing.
- Removing regulatory requirements for offers to independent contractors, where they do not have to pay for interests.

It is important to note that these are regulatory reforms not tax reforms. The shares or options will still be taxable under the existing employee share scheme tax rules.

These regulatory reforms build on the tax reforms introduced earlier this year that removed cessation of employment as a taxing point for employee share schemes.