

## 2020-21 Federal Budget

Treasurer Josh Frydenberg last night handed down the 2020-21 Federal Budget. Announced in the middle of a global pandemic and a massive economic emergency, this is perhaps the most significant Budget in a generation. The Coalition, which had once been so loudly and aggressively debt averse, has now embraced the need for extensive borrowings to help the nation survive, and move forward from, the current crisis. The Treasurer announced a Budget deficit for the year to come of \$213.7 billion, with net Government debt set to peak in 2024 at close to a staggering \$1 trillion. Whether or not the investment will pay off remains to be seen, but the Government at this stage is banking on the recovery being driven by Australian businesses.



Many will argue that, all rhetoric aside, carefully managed debt is a key lever for a Government to pull in order to manage an economic downturn. With targeted investments in infrastructure, and reforms to Government systems and compliance processes (such as the \$800 million plan to improve business digital efficiency), borrowings can be a way to stimulate the economy and invest for the future at the same time. Often it's only with the benefit of hindsight that history is able to judge the success or failure of Government response, and so we can only wait now to see whether some of these more positive objectives are achieved.

Some of the key measures affecting small-medium business owners that were announced last night (and in the weeks leading up to Budget night) include:

1. **A no-limit instant asset write-off** - Businesses with annual turnover of up to \$5 billion will be able to deduct the full cost of any new asset in the first year of purchase, from 6th October 2020 until 30th June 2022. For businesses with annual turnover of less than \$50m the asset can be second hand.
2. **The return of the loss carry back provisions** - Companies with annual turnover of up to \$5 billion will be able to offset losses against prior year profits in order to generate a refund. Losses from the 2019-20, 2020-21 and 2021-22 years may be applied to profits made in or after the 2018-19 financial year. This is in addition to the long-standing practice of carrying *forward* losses to claim against *future* profits, and will no doubt be welcome news for companies that have otherwise been relatively robust but have experienced challenges during the pandemic. However, the refund can only be claimed when lodging the 2020-21 or 2021-22 Income Tax Returns.
3. **Personal tax cuts brought forward** - Personal tax cuts that were due to take effect from 2022-23 have been brought forward and are now in effect from 1st July 2020, i.e. this current financial year. These include increasing the 19% threshold from \$37,000 per annum to \$45,000 per annum, and the 32.5% threshold from \$90,000 pa to \$120,000 pa. In addition, to ensure that benefits do not flow only to higher income earners, there will be an increase in the low income tax offset, while the planned removal of the low and middle income tax offset will be delayed for another year.

4. **An increase in the small business eligibility threshold** - The annual turnover threshold for accessing certain small business tax concessions will increase from \$10 million per annum to \$50 million.
5. **JobMaker Hiring Credit** - Eligible employers can claim a credit of up to \$200 per week for each additional new job they create for an eligible employee from 7th October 2020 to 6th October 2021.
6. **R&D incentive changes** - From 1st July 2021, small Research and Development (R&D) entities will be entitled to an offset of 18.5 percentage points above their tax rate. Further, there will be no refundable limit. Large R&D entities will have intensity tiers reduced from three to two, with offsets of 8.5 and 16.5 percentage points above their tax rate.

Each year we provide a detailed summary of the key components of the Federal Budget announcement the day after it's delivered. This year is a little different. We know that most of the key talking points are available in any number of media outlets, however it's usually only in the ensuing weeks, as more detail comes to hand, that we have a better picture of what it all means for small and medium businesses. Being such a significant Budget this year, we want to make sure we do it justice. Rather than simply reproducing a list of all the most relevant measures with our best guess of what they will mean, we're going to break it down into smaller chunks which we'll release over the coming weeks, with more detail as it becomes available, together with our usual level of investigation and commentary.

We receive a lot of valuable feedback from our readers, and we're often told that one thing they appreciate about our newsletters is the extra analysis and consideration we give to some of the obvious questions and potential problems that present themselves with any new measures. We also strive to outline some of the practical implications that will impact the lives and daily operations of business owners. So stay tuned!

**In the meantime, if you have any questions about anything that has been announced or would like to discuss how they might apply to your circumstances, please [contact us](#).**

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