2022-23 Federal Budget

Treasurer Josh Frydenberg handed down the Federal Budget for the 2022-23 year last night. With a Federal election imminent, expectations were low for a Budget that would risk extensive new measures or radical reform. Even by those muted standards however, there wasn't much in this Budget in the way of tax and business announcements, with the biggest ticket items being some welcome cost of living relief and an investment in digital transformation and training.

Here's a few of the highlights.

- Additional 20% deduction for 'digital adoption' expenses
- Changes to PAYG tax collection
- Employee Share Scheme threshold changed
- 50% reduction in minimum pension drawdowns extended
- Low and middle income tax offset (LMITO) increased by $420 for 2021-22 (but not extended beyond)
- Temporary fuel excise reduced by 50%
- One-off $250 cost of living payment
- COVID-19 test expenses to be fully deductible where required for employment

Business

- **Additional 20% deduction for external training for employees** - Eligible businesses with annual turnover of less than $50 million will be able to claim an extra 20% of the deductible amount spent on external training provided to employees, delivered by Registered Training Organisations in Australia or online. Eligible expenditure incurred between 7:30pm (AEDT) Budget night (i.e. as of last night) and 30th June 2024 will qualify, however because changes will be required to tax systems and software, any relevant expenditure for this financial year (ending 30th June 2022) will need to be carried forward and claimed in the 2022-23 year. When you consider that business income tax returns are often not prepared until well after the end of the financial year, it may be another two years or more until the benefit flows through to business bank accounts.

- **Additional 20% deduction for 'digital adoption' expenses** - This measure works the same as that for external training costs, but applies to costs associated with digital adoption. That is, investment in items such as cyber security, cloud-based applications and depreciating assets that support these systems. The same process occurs for expenditure incurred for the remainder of this financial year (i.e. it can't be claimed until next year's return is lodged), and the measure finishes a year earlier, on 30th June 2023. In addition, an annual cap of $100,000 will apply to eligible expenditure.

- **Changes to PAYG tax collection** - For those who are subject to PAYG instalments, where you effectively pay most of this year's tax in advance through quarterly instalments, you may have been aware that the ATO applies an 'uplift' factor to last year's tax bill to calculate your instalments. This factor is linked to GDP growth and the statutory rate can be as high as 10%. This rate will now be reduced to 2% for instalments relating to the 2022-23 year, once the relevant legislation receives assent. Whilst the 10% rate has always seemed extraordinarily high, it's important to note that this is purely a cash-flow timing benefit. There is no actual relief here, because when you pay PAYG instalments, it's based on an estimate of your upcoming tax bill. When your tax return is actually lodged, the instalments paid are deducted from the final amount payable, and the resulting amount calculated is either a payment or a refund of the difference.

  In addition, from 1st July 2024 PAYG taxpayers will have the option to have their PAYG tax instalments based on current financial performance, rather than an arbitrary calculation that needs to be explicitly varied when circumstances have changed.

- **Employee Share Scheme threshold changed** - For unlisted companies operating employee share schemes, red tape has been reduced by significantly increasing the threshold amounts that employees can invest, from $5,000 to $30,000. They can also invest any amount if it would allow them to take advantage of an imminent listing or planned sale.

Superannuation

- **50% reduction in minimum pension drawdowns extended** - There wasn't a lot in this Budget relating to superannuation, which is a welcome change from the relentless tinkering of the last decade. Most of the changes are small and were previously announced, but it's worth noting that the temporary 50% reduction in minimum pension drawdown amounts has been extended for another year, to 30th June 2023. This is effectively a relief measure designed to protect retirees who may not necessarily need the minimum pension amount but are required to withdraw it at a time when investment markets are more uncertain.

Personal tax

- **Low and middle income tax offset (LMITO) increased by $420 for 2021-22 (but not extended beyond) -** This measure is one of the 'big ticket' cost of living items that has received a lot of press. The LMITO is a complex tax offset that provides a rebate to taxpayers earning between $37,000 and $126,000 per year. The amount can be up to $1,080 per annum for those with taxable income between $48,000 and $90,000, but varies for those either side of this bracket. The maximum about payable will be increased for the 2021-22 financial year to $1,500, the difference being referred to as a 'cost of living' payment.

  There's a bit of smoke and mirrors with this payment. This was to be the last year of the LMITO anyway, but the Government had been facing pressure to extend it further in view of the current economic challenges faced by many. Instead, the LMITO will cease after this year as planned. The additional offset in this final year is indeed a welcome bonus, but it will be paid for in full, and then some, by the complete elimination of the offset next year. In addition, the offset is non-refundable, which means it can only be used to reduce tax payable. It provides little to no benefit to those on lower incomes or those with a reduced tax debt.

- **Temporary fuel excise reduced by 50% -** While not strictly a personal tax measure, we couldn't let this one go by without comment, being one of those 'water cooler' measures that everyone is talking about and most have an opinion on. In response to sky-rocketing fuel prices, the Government has announced it will temporarily reduce the excise that applies to fuel by 50% for six months. The reduction applies from midnight last night, so should be in place now, and the ACCC will be empowered to monitor the behaviour of retailers to ensure the full value is passed on. While no doubt a welcome relief measure for families and those businesses where fuel is a significant input cost, we wish the Government luck when the time comes to advise motorists that fuel excise will effectively be doubled again!

- **One-off $250 cost of living payment -** The Government will make a one-off payment of $250 for cost of living assistance to certain pensioners, welfare recipients, veterans and concession card holders. The amount will be tax exempt.

- **COVID-19 test expenses to be fully deductible where required for employment -** This measure had been announced back in February, but was highlighted again as a part of the Budget announcement. The Government proposes that from 1st July 2021 the cost of COVID-19 testing required in order to attend a place of work will be tax deductible for individuals. This will also be the case for businesses that provide testing for employees, and the cost of testing will also be made exempt from Fringe Benefits Tax.

Our take...

This is an election Budget if ever there was one. There's plenty in the way of infrastructure and health spending, which is not only a vote-winner, but if done right, can be an important investment in the future of the nation, at a time when it is beginning to recover from the global pandemic. There's also some concessions for those feeling the pinch of rising inflation and general cost of living expenses, which will be well-received and won't hurt the Government at the ballot box.

But there's also a sense here in which the Government is clearly trying hard not to rock the boat in an election year. There is little in the way of systemic change to the underlying factors that weigh down businesses in Australia, including an overly complex taxation system and excessive red tape. We have always been vocal in our calls for a 'root and branch' reform of the tax system, and while successive Governments have been reticent to go that far, it seems a particularly important time to at least address some of these issues. Business activity will be one of the key drivers of economic recovery from the pandemic, and we can't help but feel that there's a missed opportunity here to stimulate activity and growth though increased tax and compliance efficiency.

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