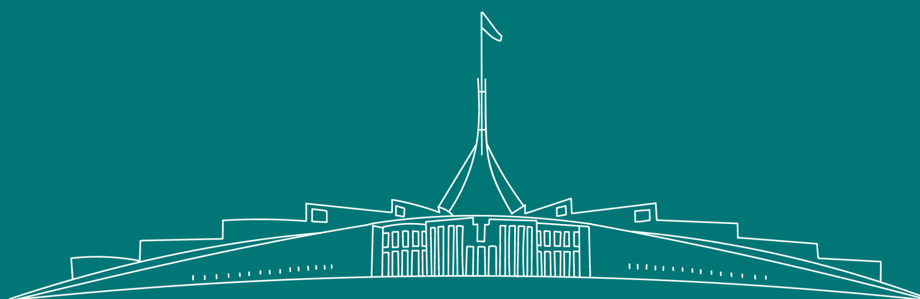


2020-21 Federal Budget

A middle-market perspective

October 2020

bakertilly
NETWORK MEMBER

Contents

Overview ... 3
Budget analysis ... 5
Personal income tax ... 6
Private tax ... 8
Business tax ... 9
Research and development ... 11
International tax ... 12
Managed investment trusts ... 13
Fringe benefits tax ... 14
Superannuation ... 15
Appendix 1: Expenditure measures ... 17
Appendix 2: Scorecard ... 19

© Pitcher Partners. All rights reserved.
Pitcher Partners is a national association of independent firms.

Overview

In the midst of global economic uncertainty, it is no surprise that the Federal Budget 2020-21 is focussed on the roll-out of an enormous Government spending program, supported by a wide range of quickfire measures to encourage business investment and job creation. Whilst not focussed on long-term structural reform, the Budget is pragmatic in the circumstances.

All aspects of this Budget are sizeable, from the $213 billion deficit and $900 billion of projected national borrowings through to the forecasts of at least three years toil to return economic activity and employment to pre-COVID levels. In the short term, the expenditure measures are likely to significantly support the reignition of the economy.

The question remains: Will this Budget support a structural shift for Australia to be an economy that creates value? In short, it's a good first step, and support for moving to digital platforms for business, and developing advanced manufacturing capacity are logical, as is the re-establishment of a productive economy (even if it is underpinned by roads and housing), to get things moving.

Long-term structural reform may be something we see tackled in the next Federal Budget, which is now only seven months away, in May 2021 (assuming that we see a return to the normal schedule). As we know, now more than ever, seven months is a long time. We hope, and will lobby for, the Federal Budget 2021-22 to be aspirational for all Australians, including middle market businesses.

The Government must confront and plan for the next stage of economic transformation for the long-term health and viability of the nation. Having set a path to recovery, the Government must next address the complex tax and labour systems, realign the education system for the future, and continue to promote and facilitate innovation to drive growth.

The Treasurer's maiden Budget last year, which was all about the return to surplus and affirming the Government's economic credentials heading into an election it was expected to lose, is a very distant memory.

From this year's Budget, some of the key impacts for business and stakeholders include:

- Consumption stimulus through reduction in personal income tax rates.
- Business investment stimulus through immediate asset write-offs based investment allowances.
- Stimulus for advanced manufacturing with $1.5B grants for resources; food and beverages; medical products; recycling and clean energy; defence and space.
- Housing stimulus through an extension of 10,000 homes to the First Home Loan Deposit Scheme.
- Construction stimulus through $14B of infrastructure expenditure.
- Youth employment support through $5.2B of subsidies for apprentices and trainees and the JobMaker program.
- Recoupment of prior year tax payments with the introduction of loss carry-back rules.

Further detail on the expenditure measures is contained in Appendix 1. Pitcher Partners is pleased that several of the suggestions (or variants thereof) in our Pre-Budget Submission were adopted. This was based on feedback we obtained from our clients in our Pre-Budget survey. The Federal Budget 2020-21 Scorecard in Appendix 2 provides a comparison of the suggestions in our Pre-Budget submission to those announced in the Federal Budget.

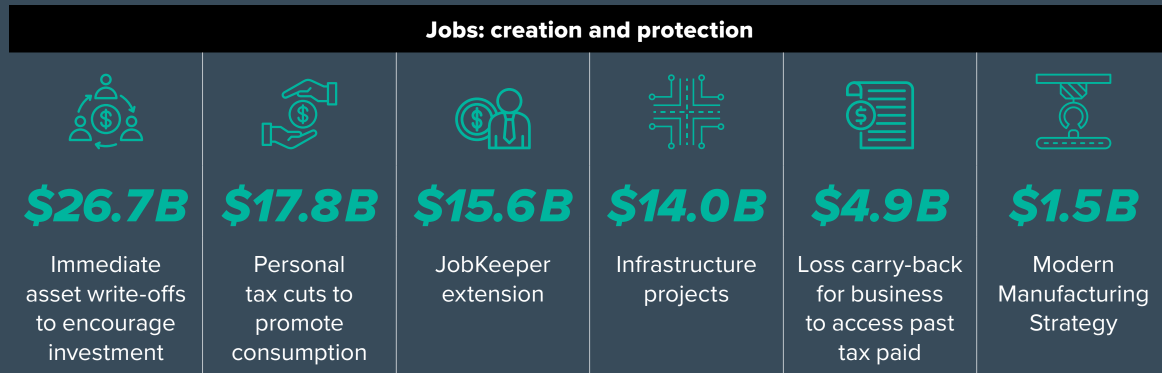
In a year that has been challenging for so many, in so many ways, this is probably the Budget that was needed. For now, the middle market must focus on harnessing the considerable opportunities it presents and work to re-establish and then future proof themselves.

© Pitcher Partners. All rights reserved.
Pitcher Partners is a national association of independent firms.

A final cautionary observation – the Budget forecasts are all predicated on a complex set of assumptions. Invariably, these will be concerned fundamentals such as growth, core commodity prices and general trading conditions. In a year that will be defined by its Black Swan event of the global pandemic, the detail in this year's Budget contains the very important assumption that there will be a COVID-19 vaccine program widely available in Australia by no later than the end of 2021.

© Pitcher Partners. All rights reserved.
Pitcher Partners is a national association of independent firms.

$85B stimulus over four years



Budget analysis

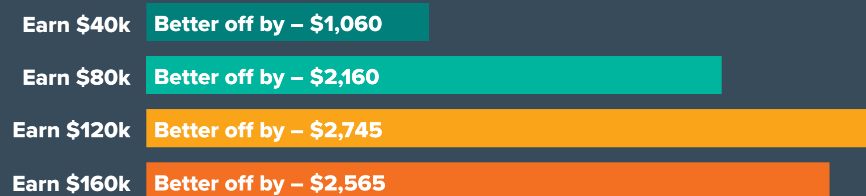
The long road to recovery

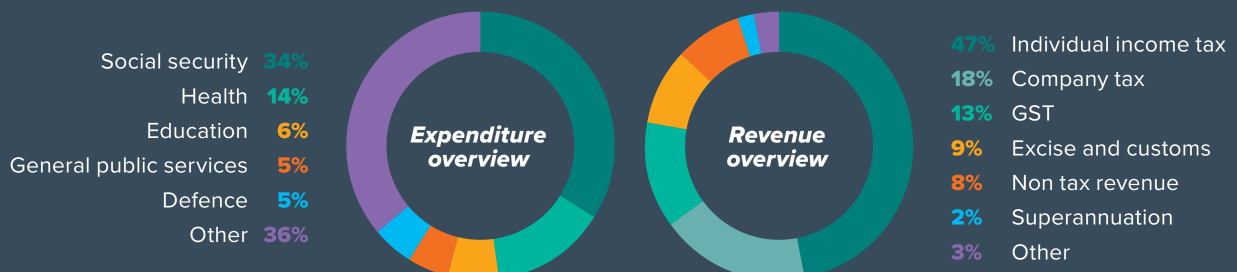
	2020	2021	2022	2023
Deficit	-$85.3B	↑ -$213.7B	↓ -$112B	↓ -$87.9B
Debt	$491.2B	↑ $703.2B	↑ $812.1B	↑ $899.8B
Real GDP	-0.2%	↓ -1.5%	↑ 4.75%	↓ 2.75%
Unemployment	7.00%	↑ 7.25%	↓ 6.50%	↓ 6.00%
CPI	-0.30%	↑ 1.75%	↓ 1.50%	↑ 1.75%

↑ **23%**
Government spend

↓ **1%**
Government receipts

More money in your pocket





Personal income tax

The Government will bring forward previously legislated changes to reduce personal income tax to take effect retrospectively from 1 July 2020. This measure is designed to stimulate the economy by increasing the disposable income available to individuals. The cuts will be a welcome boost to the local economy and is one of the key initiatives of the Government's JobMaker Plan.

Income tax offset

The Government will increase the low income tax offset (LITO) for taxpayers with taxable incomes of less than $37,000 from $445 to $700. The LITO will be withdrawn at a rate of 5 cents per dollar of taxable income for those with taxable incomes between $37,000 and $45,000 and withdrawn at a rate of 1.5 cents per dollar for those with taxable incomes between $45,000 and $66,667.

The Government will also retain the low and middle income tax offset (LMITO) for the 2020-21 income year, providing a reduction in tax of up to $1,080. It provides a reduction in tax of up to $255 for taxpayers with a taxable income of $37,000 or less. The LMITO will increase at a rate of 7.5 cents for every dollar of taxable income between $37,000 and $48,000, and taxpayers with taxable incomes between $48,000 and $90,000 will receive the full $1,080. The LMITO will phase out at a rate of 3 cents per dollar for those taxpayers with taxable income between $90,000 and $126,000.

Tax rate changes

The Government proposes to bring forward the second stage of its personal income tax plan with retrospective effect from 1 July 2020. This measure will mean that the top threshold of the 19% tax bracket will increase from $37,000 to $45,000, and the top threshold of the 32.5% tax bracket will increase from $90,000 to $120,000. These changes mean that an employee on $50,000 will be $1,080 better off in 2020-21, whilst an employee on $120,000 will be $2,430 better off when compared to 2019-20.

Once the changes are implemented, taxpayers will receive more money in their regular pay packets (with a reduction in PAYG withholding rates) and should receive any residual benefit upon assessment of their 2020-21 income tax returns.

Stage 3 of the Government's personal income tax plan remains unchanged and should commence from 1 July 2024.

Tax rates and thresholds for 2020-21 onwards

The table below summarises the announced personal tax rate and threshold changes (excluding the 2% Medicare levy) and shows the main changes to the tax rates announced as part of the Budget.

Tax rates and thresholds			
Rate	**2020-21** Announced in 2019-20 Budget	**2020-21** Announced in 2020-21 Budget	**2024-25** Previously announced
0%	$0 – $18,200	$0 – $18,200	$0 – $18,200
19%	$18,201 – $37,000	$18,201 – **$45,000**	$18,201 – $45,000
30%	N/A	N/A	$45,001 – $200,000
32.5%	$37,001 – $90,000	**$45,001 – $120,000**	N/A
37%	$90,001 – $180,000	**$120,001** – $180,000	N/A
45%	$180,001+	$180,001+	$200,001+
LITO	Up to $445	**Up to $700**	Up to $700
LMITO	Up to $1,080	Up to $1,080	

© Pitcher Partners. All rights reserved.
Pitcher Partners is a national association of independent firms.

Medicare levy low-income thresholds

For the 2020-21 income year, the Medicare levy low income threshold for singles will be increased to $22,801 (up from $22,398 in 2019-20). For couples with no children, the family income threshold will be increased to $38,474 (up from $37,794 in 2019-20). For each dependent child or student, the family income threshold will increase by $3,533 (up from $3,471 in 2019-20).

For single seniors and pensioners eligible for the seniors and pensioners tax offset, the Medicare levy low income threshold will be increased to $36,056 (up from $35,418 in 2019-20). The family threshold for seniors and pensioners will be increased to $50,191 (up from $49,304).

© Pitcher Partners. All rights reserved.
Pitcher Partners is a national association of independent firms.

Private tax

There has been an increase in the Small Business Entity turnover threshold, allowing more medium-sized businesses the ability to access various concessions.

Small business concessions

The Government has announced an increase in the small business turnover threshold from $10 million to $50 million from 1 July 2020, limited to certain measures. The increase in the turnover threshold will apply to approximately 20,000 businesses. From 1 July 2020, these businesses will become eligible for immediate deductions for certain prepaid expenditure and certain start-up expenses. Eligible businesses will also be able to access an FBT exemption on car parking and multiple work-related portable devices provided to employees from 1 April 2021.

From 1 July 2021, these businesses will be eligible to access simplified trading stock rules, to remit PAYG instalments based on GDP adjusted notional tax and settle excise duty and excise-equivalent customs duty monthly on eligible goods. The proposal will also align the small business turnover threshold with the threshold applicable for base rate entities for company tax rate purposes.

The increased threshold will not apply to eligibility for the small business CGT concessions or the small business income tax offset, and it is unlikely that the increased threshold will apply to the simplified depreciation rules or the small business restructure rollover.

The limited two-year amendment period for income tax assessments may also apply to this broader population of business entities. However, this may ultimately be of limited benefit as the standard four-year period will apply to entities that are beneficiaries of trusts that do not carry on a business, as well as in relation to various transactions such as those involving international dealings or the application of Division 7A.

From 1 July 2021, the Commissioner's power to make Simplified Accounting Method (SAM) determinations will be expanded to these businesses (the current threshold being $2 million where the business makes both GST-free and taxable supplies and does not have adequate point of sale equipment to record their classification). A SAM provides eligible taxpayers with a simplified safe harbour method to work out their GST liability. As larger businesses will generally have better recording systems, it will remain to be seen how the Commissioner will apply these powers to practically reduce the GST compliance burden of these taxpayers.

While any reform for taxpayers in the middle market is welcomed, these measures do not go far enough. Many of the concessions are basic in nature and do not really provide tax savings or concessional treatment. As noted above, there are a number of measures that the thresholds do not apply to, which in our view will create complexity within the system and will create further red tape. The measure is estimated to be delivered at a cost of $105 million, reflecting the small nature of this measure.

CGT exemption for granny flats

The Government has announced a capital gains tax (CGT) exemption for the creation, variation or termination of formal granny flat arrangements that provide accommodation for older Australians or people with disabilities. The CGT exemption will apply only to agreements that are entered into because of family relationships or other personal ties and will not apply to commercial rental arrangements. The exemption will come into effect from the first income year after the legislation receives Royal Assent.

The announcement describes the measure as consistent with the recommendations in the Board of Taxation's Review of Granny Flat Arrangements. The review also noted problems with the tax treatment of "rent" under such arrangements and accessing main residence relief on disposals. Accordingly, we are hopeful that these issues will be addressed when the measures are drafted.

With the removal of tax impediments to granny flat arrangements, businesses in the housing and construction industry may see an increase in demand for such projects.

© Pitcher Partners. All rights reserved.
Pitcher Partners is a national association of independent firms.

Business tax

Significant measures have been announced to support capital investment by business through an expanded instant asset write-off regime, coupled with a tax loss 'carry-back' rule, which may provide additional cash to businesses. Additional measures are to be introduced to ensure certain Victorian Government Business Support Grants are not taxable.

Significant expansion to the instant asset write-off

The Government has announced a temporary full deduction for depreciable assets for all businesses with aggregated turnover of less than $5 billion. This is a significant enhancement to the current program which is limited to assets costing up to $150,000 for businesses with aggregated turnover less than $500 million.

Businesses with aggregated turnover of less than $5 billion that acquire eligible depreciating assets from 7:30pm (AEDT) 6 October 2020 which are first used or installed by 30 June 2022, should be entitled to deduct the full cost of asset in that income year, with no limitation on value. The cost of improvements to existing eligible assets can also be deducted. For entities with aggregated turnover less than $50 million, full deductions will also apply to second-hand assets.

When coupled with the loss carry back rule (discussed below), this measure may result in refunds of prior year tax paid to the extent that losses are incurred due to the investment in assets. Accordingly, the measure will likely assist in promoting additional spending on projects. However, the measures are limited to depreciating assets and therefore will not apply to other capital works.

This is one of the most expensive budget measures, costing $26.7 billion over four years, and will generally be available to 99% of Australian businesses. While this is a welcome change, Pitcher Partners had advocated for a lower corporate tax rate as an alternative to this measure in our Pre-Budget submission. A lower tax rate would have delivered immediate cash to businesses and would have allowed the choice of spending the money on items other than depreciable assets (e.g. in promoting services businesses that are not capital intensive).

Tax loss carry-back rule

The Government has announced a loss carry-back rule for tax losses that are incurred in the 2019-20, 2020-21 or 2021-22 income years. Corporate taxpayers will be provided a choice to carry-back and offset those losses against taxes paid in the 2018-19 or later income years. The measure is applicable to corporate tax entities with aggregated turnover of less than $5 billion.

The measure allows tax refunds to be accessed when lodging the 30 June 2021 income tax return. Accordingly, taxpayers will need to wait to access cash returns from this measure. Whilst there is no maximum loss that can be carried back, the offset will be limited to the lower of tax paid in the respective years and the extent of franking credits available. The legislation implementing the regime will be crucial, as there have been many changes across the Australian income taxation landscape since the previous incarnation of the loss carry-back rule was released in the 2012-2013 income year. Those measures contained significant complexity, including integrity rules around continuity of ownership and interactions with the tax consolidation provisions.

Pitcher Partners welcomes the introduction of a targeted loss carry-back regime to assist previously profitable businesses. However, restricting the ability to carry-back tax losses from the 2019-20 income year until lodgement of the 30 June 2021 income tax return limits the ability of companies to access crucial cash flow support until at least July 2021. In this regard, it is noted that the recent introduction of loss carry-back measures in other jurisdictions such as New Zealand have expedited refunds to be paid in the current income year.

From a middle-market perspective, it is disappointing that the announcement is limited to company losses and does not extend to trust losses. Many taxpayers in the middle market operate through trusts and may make distributions to a corporate beneficiary. In such a case, if the trust has subsequently made a loss, it will not be able to recoup the amount against prior tax paid by the company. Furthermore, this measure may also provide limited or no benefit to corporate tax entities that have distributed prior year profits by way of franked dividends, resulting in a low franking balance which will act as a ceiling on the amount of refundable offset that can be obtained. In the middle market, this could be the case where companies are not part of a tax consolidated group and have already paid dividends to the holding company.

© Pitcher Partners. All rights reserved.
Pitcher Partners is a national association of independent firms.

Treatment of business support grants

The Government has announced that certain Victorian Government business support grants for small and medium businesses will be treated as non-assessable, non-exempt (NANE) for income tax purposes. These arrangements would also be extended to all States and Territories on an application basis. Regardless of which State or Territory provides the grant, this measure will only be available to grants that are announced on or after 13 September 2020 and paid between 13 September 2020 and 30 June 2021.

Given the unprecedented circumstances that Victorian businesses face, Pitcher Partners welcomes the departure from the existing position that these grants would be assessable income which would otherwise reduce income tax losses. This will ensure that businesses retain more cash to keep operating. However, where grants are received by a company, individuals may face 'top up' tax if these amounts are distributed by way of a dividend to the shareholders. Given the number of support grants that have been made available, we would also encourage the Federal Government to provide clarity on which grants are eligible for NANE treatment and ensure easier income tax compliance for taxpayers.

© Pitcher Partners. All rights reserved.
Pitcher Partners is a national association of independent firms.

PITCHER PARTNERS

Research and development

The Government has announced changes to the R&D tax incentive that will reverse many of the previous R&D reform measures introduced during the 2018-19 Budget and defer the start date to 1 July 2021.

For companies with an aggregated turnover of less than $20 million, the incentive will remain as a refundable tax offset and will provide such companies with a benefit of 18.5% above the applicable company tax rate for eligible R&D expenditure. This compares favourably to the benefit of 13.5% as per the original announcement. Further, the previously proposed $4 million annual cap on the amount of the cash refund pursuant to the refundable tax offset will be scrapped.

For companies with aggregated annual turnover of $20 million or more, the incentive will still be tied to the claimant's "R&D intensity" (a measure of the company's annual R&D expenditure as a proportion of its total annual expenditure). However, the number of intensity tiers will be reduced from three to two, with a corresponding increase in the non-refundable R&D tax offset rates. The additional R&D benefit will either be 8.5% or 16.5% above the applicable company tax rate, with the higher benefit being available where the company's R&D intensity level exceeds 2%. The previously announced increase to the expenditure cap (up from $100 million to $150 million per annum) remains unchanged.

In conjunction with the bolstered R&D funding, the Government will also provide an additional $459 million of funding to the CSIRO and $1 billion to universities to ensure that they can continue with their essential research activities. Given that the CSIRO and universities often collaborate with R&D claimants on R&D activities, the additional funding should lead to greater innovation and collaboration opportunities for these businesses.

Pitcher Partners has made several submissions to the Senate opposing the previous R&D changes and we welcome the proposed Budget changes seeking to reverse many of the decisions that would have reduced the effectiveness of the R&D regime in Australia. Pitcher Partners will continue to advocate for R&D provisions that are competitive from an OECD perspective to ensure that research remains in Australia and can assist in fostering innovation and future innovative industries in Australia.

© Pitcher Partners. All rights reserved.
Pitcher Partners is a national association of independent firms.

International tax

The Government will introduce key corporate tax residency amendments for foreign incorporated companies, alongside a handful of minor international tax measures.

Amendments to clarify Australia's corporate tax residency rules for foreign incorporated companies

Following the High Court decision in *Bywater Investments Ltd v Federal Commissioner of Taxation* (Bywater), the ATO expanded their view on the circumstances under which foreign incorporated companies would be considered Australian tax residents. This has resulted in considerable uncertainty for Australian businesses expanding offshore and increased exposure to significant adverse tax consequences and additional compliance costs.

This additional uncertainty lead to the Government commissioning the Board of Taxation to provide recommendations to overcome the additional complexity and exposure for Australian businesses expanding overseas. Pitcher Partners has played an active role in the Board of Taxation's recommendations and it is pleasing to see that the Government will be adopting those recommendations.

Going forward, a foreign incorporated company will be considered an Australian tax resident if it has both core commercial activities in Australia and its central management and control is exercised in Australia. This is expected to result in fewer foreign incorporated companies being considered Australian tax residents in contrast to the application of the ATO's current view in Taxation Ruling (TR) 2018/5.

It is also encouraging to see that taxpayers will have the option of applying the new law retrospectively from 15 March 2017, thereby effectively preventing the adverse impacts of the Bywater decision at taxpayer discretion.

While this is a welcome update for taxpayers, the effectiveness of the new rules will be dependent on an appropriate definition of the new concept of 'core commercial activity' and clarification of whether the current voting power test will be retained. Pitcher Partners will continue to be actively involved in consultation in relation to the new legislation to ensure the new rules provide sufficient certainty for middle market businesses expanding overseas.

Strengthening Australia's foreign investment framework

In June 2020, Treasurer Josh Frydenberg announced major reforms to Australia's foreign investment regime. These reforms were enacted to ensure that Australia's foreign investment framework keeps pace with emerging risks and global developments. The reforms addressed key risks associated with foreign investment such as introduction of a national security test, stronger enforcement powers, greater compliance monitoring and harsher penalties. To support these reforms, the Australian Government had provided net funding of $54.1 million in the July 2020 fiscal update.

The Government has announced further funding to implement a new information and communication technology (ICT) platform. It is expected this platform will decrease Foreign Investment Review Board (FIRB) application processing times. The platform will also strengthen FIRB's review and compliance activities. In addition, the ICT platform is expected to include a new consolidated Register of Foreign Ownership of Australian Assets.

The foreign investment fee framework is also expected to be simplified with adjusted fees taking effect from 1 January 2021. The revised fee framework will ensure that foreign investors (and not Australian taxpayers) bear the costs of administrating the foreign investment system.

Pathway to permanent residency to be extended to New Zealand Special Category visa holders but beware of tax consequences

New Zealand Special Category (subclass 444) visa holders meeting certain taxable income conditions will be able to apply to take up Australian permanent residency.

While great news for eligible New Zealand citizens looking to take up the opportunity, applicants should be mindful of Australian tax consequences associated with Australian permanent residency. Subclass 444 visa holders who may be considered temporary tax residents should plan for the additional tax and complexity associated with permanent residency. A move to non-temporary resident status can bring foreign investment income and capital gains within Australia's tax net and may open individuals to attribution of income under Australia's controlled foreign company rules. Accordingly, care needs to be taken when considering the option from a taxation perspective.

© Pitcher Partners. All rights reserved.
Pitcher Partners is a national association of independent firms.

Managed investment trusts

The Government continues to expand the list of countries with exchange of information agreements, providing access to lower withholding tax rates and driving inbound investment opportunities into Australian managed funds.

The Government has added nine new exchange of information agreements and removed one, increasing the number of information exchange countries from 122 to 130. Australia has entered into agreements with these countries since the previous update to the list in 2019.

The new countries are Hong Kong, the Dominican Republic, Ecuador, El Salvador, Jamaica, Kuwait, Morocco, North Macedonia and Serbia. Kenya will be removed from the existing 122 countries on the list. Pitcher Partners welcomes the addition of these countries, particularly Hong Kong, being one of Australia's key investment partners.

From 1 July 2021, fund payments made by withholding Managed Investment Trusts (MITs) to investors in these jurisdictions should generally be eligible to access the reduced 15% MIT withholding tax rate, instead of the default rate of 30%. Fund payments typically include distributions of rental income and capital gains from taxable Australian property (with dividends, interest and royalty income subject to a separate withholding tax). Accordingly, these measures will further support investment into Australian real estate investment trusts (REITs).

© Pitcher Partners. All rights reserved.
Pitcher Partners is a national association of independent firms.

Fringe benefits tax

Certain Fringe Benefits Tax (FBT) exemptions will now apply to businesses with turnovers between $10 million and $50 million. Retraining of redundant and redeployed employees will also be exempt from FBT. Record-keeping requirements may also be reduced in future.

Expansion of exemptions for small business entities

The Government has announced that the definition of small business entity will be expanded to apply to businesses with aggregated turnover up to $50 million, thus enabling more businesses to access FBT exemptions for certain car parking benefits and multiple portable electronic devices provided to employees.

The change to car parking benefits will be a significant concession for many employers currently providing car parking benefits in inner city areas, particularly given employee concerns about the use of public transport in the current environment. Access to the exemption will still be subject to other considerations, including that the benefit cannot be provided in a commercial car parking station. The changes will apply from 1 April 2021.

For portable electronic devices, the current FBT exemption is available to all employers, but is limited to the provision of one similar portable electronic device to an employee in each FBT year, provided the device is primarily used in the employee's employment. The expanded definition of small business entity means that more employers will now be able to provide multiple portable electronic devices to their employees in any given FBT year. Given that the exemption will still require each device to be provided primarily for use in the employee's employment, it is unlikely to be a significant concession.

Retraining of redundant and redeployed workers

The Government has announced that it will introduce an exemption enabling employers to provide retraining for redundant or redeployed employees with effect from the date of announcement (6 October 2020). Currently, an exemption from FBT is only available for training provided to employees related to their current position. The exemption will not apply to any salary packaging arrangements.

Given the significant redundancies and redeployments as a result of COVID-19, this exemption will provide opportunities for employees to continue employment in restructured businesses or seek employment in other industries.

The Government acknowledges that the current rules regarding self-education expenses operate as a disincentive to an individual retraining and reskilling. As such, it proposes to consult on allowing individuals to deduct expenses incurred personally to retrain and reskill to support their future employment. Pitcher Partners welcomes these changes and proposals.

Reducing record-keeping requirements

The Government has announced that it will provide the Commissioner of Taxation with the power to allow employers to rely on existing corporate records rather than employee declarations and other records which would normally be required to finalise FBT returns. This measure will come into effect from the start of the first FBT year after the date of Royal Assent of the enabling legislation.

Whilst this measure is designed to reduce the compliance burden on employers, it will be entirely at the discretion of the Commissioner to determine the adequate alternative records. It will be important to understand what corporate records the Commissioner may accept in lieu of the employee declarations ordinarily required.

© Pitcher Partners. All rights reserved.
Pitcher Partners is a national association of independent firms.

Superannuation

The Government has announced the "Your Future, Your Super" package to improve the superannuation system and has confirmed a number of previously announced measures to apply from 1 July 2021.

Superannuation accounts will be 'stapled' to an employee when they change jobs

The Government has announced that, from 1 July 2021, they will implement a proposal to 'staple' an existing superannuation account to an individual as they move between jobs. The purpose of this measure is to reduce duplication of super accounts for individuals when they change jobs and do not nominate their existing fund with their new employer (or otherwise do not consolidate their super if a new account is created for them).

This is a welcomed measure which reflects a proposal recently made by the Productivity Commission. Pitcher Partners expects that the changes will improve the employee onboarding process for both employees and employers, and that future enhancements to payroll software will further simplify administrative processes on commencement of employment.

Underperforming funds will be prohibited from accepting new members

The Government has announced they will conduct benchmarking tests on superannuation funds and prohibit funds that underperform over two consecutive years from accepting new members until they cease underperforming. While the measure will take effect from 1 July 2021, it is not clear which year will be the first year subject to the new benchmarking test.

While this measure is welcomed, it is unclear how the Government will ensure the underlying fund data is reliable, as this is an issue which currently acts as a significant barrier to making simple comparisons of the performance of funds.

Members will have access to a new interactive tool to compare superannuation funds

The Government has announced that individuals will have access to a new interactive online YourSuper comparison tool to compare superannuation funds from 1 July 2021. It is expected that employees who change jobs will also be able to select a superannuation fund from within the YourSuper portal.

This is a welcomed measure, however would again depend on the integrity of the underlying data used for the comparison tool being reliable and comparable across superannuation funds. We expect the measure would also simplify the onboarding process for employers as new employees should be able to select a superannuation fund themselves from their YourSuper portal.

Small fund membership increased from four to six members

The Government restated an intention to increase the maximum number of fund members that can participate in a self-managed superannuation fund (SMSF) and a small APRA fund to six members (up from four). This measure was originally announced in the 2018-19 Budget and amending legislation is currently before the Senate with a start date from Royal Assent.

An increase in permitted member numbers to six would be a welcome change that should provide more opportunities for families to pool wealth in a common super fund structure for investment and access investment opportunities that would not otherwise be available. It may also make it easier for families to hold particular assets in a super fund structure and transition these to the next generation.

However, we note that a decision to include children in the one family super fund may not always be the best approach as all fund members have an equal say in investment and other fund management decisions regardless of the size of their super balance. This can result in issues where members at different stages of life may wish to pursue different investment strategies.

© Pitcher Partners. All rights reserved.
Pitcher Partners is a national association of independent firms.

Minimum pension reduction

The Government also confirmed the 50% minimum pension drawdown reduction for the 2020-21 income year to help preserve the capital supporting a fund member's pension account.

Any individual with an account-based pension, allocated pension or market-linked pension is eligible to reduce their minimum pension for the 2020-21 income year. This change is intended to allow retirees to avoid selling assets in a loss position in order to satisfy the minimum drawdown requirements.

The table below sets out the reduced minimum drawdown requirements for the 2020-21 income year.

Age on 1 July 2020 (or commencement of pension if first year of pension)	***Normal minimum drawdown percentage***	***Reduced minimum drawdown percentage for the 2019-20 and 2020-21 income years***
Under 65	4%	2%
65 – 74	5%	2.5%
75 – 79	6%	3%
80 – 84	7%	3.5%
85 – 89	9%	4.5%
90 – 94	11%	5.5%
95 or more	14%	7%

© Pitcher Partners. All rights reserved.
Pitcher Partners is a national association of independent firms.

Appendix 1: Expenditure measures

The Government announced a large number of expenditure measures which are aimed at kickstarting the economy. Many of these items have a smaller budgetary cost and are targeted at certain businesses and industries. Below is an overview of these measures.

Business measures

JobMaker Hiring Credit

The Government has announced a new JobMaker Hiring Credit that will provide businesses incentives to take on additional employees who are young job seekers aged 16 to 35 years old. A credit of $5,200-10,400 will be provided to employers for hiring eligible job seekers. The JobMaker Hiring Credit is estimated to be applied to 450,000 positions and cost $4 billion over the forward estimates.

Local manufacturing and business

The Government is introducing a $1.5 billion Modern Manufacturing Strategy, being a long-term plan to support Australia's economic recovery and to increase Australia's innovative manufacturing capability.

Further support to regional Australia

An additional $550 million of support will be provided to Australian regions to assist in the economic recovery from the impacts of the recent floods, bushfires, drought, and COVID-19.

Employee reforms and spending

Skills reform package

The Government is committing $259 million to support the reskilling of Australians. The package includes the JobTrainer program to support the growing workforce, new apprenticeships, additional support for job seekers, assistance for graduates and short courses to reskill and upskill Australians.

Economic security for women

An additional $240 million will be provided over the forward estimates aimed at increasing women's workforce participation, improving earning potential and enhancing economic independence. This includes creating employment opportunities, providing support to parents and support for women in the workplace. Areas covered include programs to support women's leadership and development, and increase opportunities for women in science, technology, engineering and mathematics (STEM), business and male-dominated industries.

Housing and construction

First home buyers

An additional 10,000 places (over the current 20,000) will be added to the First Home Loan Deposit Scheme. These places will be provided in 2020-21 to support the purchase of a new home or a newly built home. The Scheme allows first home buyers to secure a loan to build a new home or purchase a newly built dwelling with a deposit of at least 5 per cent (with the Government guaranteeing up to 15 per cent of a loan).

Guarantee of the National Housing Finance and Investment Corporation

The Government will increase its guarantee of the National Housing Finance and Investment Corporation (NHFIC) by $1 billion, which will help in enabling the NHFIC to increase its bond issuance into the wholesale capital market. This is aimed at attracting institutional investment into affordable housing in Australia.

© Pitcher Partners. All rights reserved.
Pitcher Partners is a national association of independent firms.

Infrastructure spending

Additional project spending

The Government is committing an additional $14 billion to infrastructure over the next four years. The projects include the Melbourne to Brisbane Inland Rail and Western Sydney International (Nancy-Bird Walton) Airport.

An additional $3 billion will be injected into shovel-ready projects. This includes $2 billion to deliver small scale road safety projects as well as an additional $1 billion of funding for the Local Roads and Community Infrastructure Program. Interestingly, funding will be provided to State and Local Governments on a "use it or lose it" basis, with unused funding for road safety projects to be reallocated to States and Territories that have successfully deployed their previous allocations.

Water infrastructure

The Government has committed to an investment of $2 billion for new projects under the National Water Infrastructure Development Fund which is intended to support the next generation of water infrastructure through the Grid. The Government is also investing $270 million in the Murray-Darling Communities Investment Package which is aimed at improving the health of the Basin while supporting regional development.

Investment in digital

An additional $4.5 billion investment in NBN Co will bring ultra-fast broadband to millions of families and businesses. Funding of $29.2 million will also accelerate the rollout of the 5G network.

Health

An additional $4.9 billion will be spent on a range of health measures to provide medical care and support as a result of the COVID-19 pandemic. Other measures include investing in the COVID-19 Vaccine Access and Health Security Program in Pacific and Southeast Asian countries.

© Pitcher Partners. All rights reserved.
Pitcher Partners is a national association of independent firms.

Appendix 2: Scorecard

Feedback gathered from middle-market businesses in our Pre-Budget survey outlined the key policy areas where family-owned and private businesses would like to see the Government's focus in the Federal Budget.

Here, we look at the key tax law proposals outlined in our Pre-Budget submission and compare these to the policies and measures announced in the Federal Budget 2020-21.

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

© Pitcher Partners. All rights reserved.
Pitcher Partners is a national association of independent firms.

We're here for you

Brendan Britten MELBOURNE
Managing Partner
+61 3 8610 5279
brendan.britten@pitcher.com.au

Rob Southwell SYDNEY
Managing Partner
+61 2 8236 7724
rob.southwell@pitcher.com.au

Leon Mok PERTH
Managing Director
+61 8 9322 2022
mokl@pitcher-wa.com.au

Ben Brazier ADELAIDE
Managing Principal
+61 8 8179 2800
ben.brazier@pitcher-sa.com.au

Nigel Fischer BRISBANE
Managing Partner
+61 7 3222 8444
nfischer@pitcherpartners.com.au

Michael Minter NEWCASTLE AND HUNTER
Managing Partner
+61 2 4911 2000
michael.minter@pitcher.com.au

The material contained in this publication is general commentary only for distribution to clients of Pitcher Partners. None of the material is, or should be, regarded as advice. Accordingly, no person should rely on any of the contents of this publication without first obtaining specific advice from one of the Partners of Pitcher Partners. Pitcher Partners, its Principals and agents accept no responsibility to any person who acts or relies in any way on any of the material without first obtaining such specific advice.

© Pitcher Partners 2020.

pitcher.com.au