Gadens’ view of the Federal Budget

2020/21

A Federal Budget with Paradox befitting a Pandemic

The Government’s historic pandemic-era Budget is the most unashamedly pro-business budget in memory which also seeks to buttress employment from the headwinds of recession and technological change.

In a seemingly counterintuitive outcome for a ‘pro-jobs’ strategy, the Budget’s tax depreciation policy change is poised to accelerate the inexorable trend towards digitalisation, automation and AI by underwriting the roll out of new technology and capital expenditure through to June 2022.

In our insight into the Federal Budget, the Gadens Tax Team highlight below the key implications of the Budget measures for you and your business.

Investment allowance

The Government is effectively abolishing tax depreciation (other than for groups with more than $5 billion turnover) for short term acquisitions by allowing instead an immediate 100% tax deduction for all new depreciable assets which are first used or installed ready for use by 30 June 2022.

This measure is projected to save business $31 billion in tax payments over the next couple of years, albeit it is a timing benefit that replaces tax depreciation that would have otherwise been available in later years.

For many larger scale investments with long lead times, businesses will need to accelerate their procurement planning in order to meet the June 2022 deadline and maximise their share of this unprecedented acceleration in tax deductions.

M&A – existing assets

The Government is pleasingly extending the current instant asset write-off for acquisitions of existing assets with a value of less than $150,000 per item, which previously had a sunset date of 31 December 2020. This takes the pressure off many asset-based deals currently underway or in the pipeline, as these deals now don’t need to be executed until 31 December 2020 and need not be completed until 30 June 2021.

Unfortunately the measure didn’t go far enough to also extend the write off to share-based deals where the targets’ assets could have been deemed to be acquired under the tax consolidation rules.

Tax loss carry-back

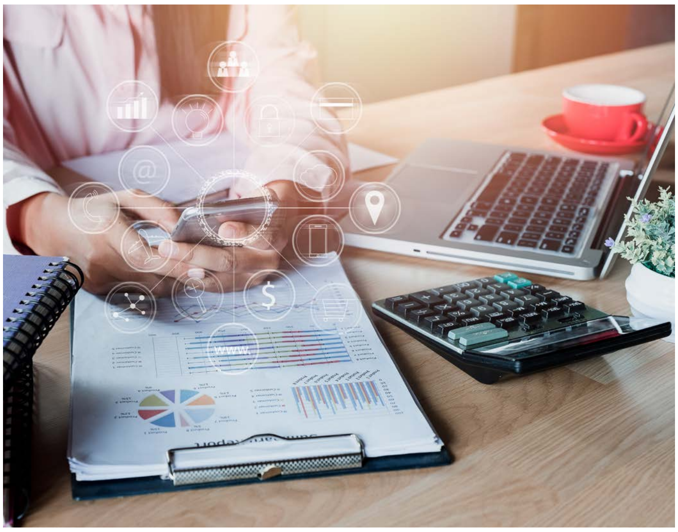
The Government has learned a key lesson from the corporate destruction in the last major recession in the 1990s and introduced a world class tax loss carry-back scheme. Under the new $5 billion refund scheme, companies with tax losses in the FY20 or following two years can retrospectively apply those losses to the taxable income of a preceding year going back to FY19 and obtain a tax refund. The refund will not be available however if the prior year profits have been paid out and there are insufficient franking credits available to absorb the refund.

Unfortunately, many small and medium size businesses will miss out on the carry-back as well as the enhanced R&D incentives as they don't operate in a corporate structure. Smaller businesses with less than $50 million turnover will however be given access to a range of concessions previously confined to businesses with less than $10 million turnover, including deductible prepayments, FBT exemptions and simplified trading stock rules.

Relief for Australian businesses investing offshore

The Government has moved to quell a controversial ATO interpretation whereby the foreign subsidiaries of Australian companies were regarded as Australian tax residents simply because some of the directors of those subsidiaries were based in Australia (which is normal multinational practice, particularly for private groups).

The ATO interpretation would have caused either profits of foreign subsidiaries to be taxable in Australia, or alternatively dividends remitted to Australia to be assessable where an effective exemption would normally apply. The effective policy rectification can be applied retrospectively to 2017, and reinstates with certainty the previous consensus regarding the operation of the Australian international tax system for outbound businesses.



Workforce management

The significant personal tax cuts (circa $2,500 per employee on $120,000+) are an indirect boon for employers whose staff will benefit from real post-tax income growth without any abatement in wage restraint. Smaller businesses with less than $50 million turnover will also be able to leverage FBT exemptions available for employee car parking and additional phones and laptops.

The more interesting opportunity for employers, aside from the funding of technological displacement, is the $10,000 subsidy for hiring younger employees previously on welfare. No doubt some employers will be looking at re-shaping their workforce composition towards younger employees that qualify for the subsidy. Whilst this may suggest questionable motivations by some, it is consistent with fortifying the younger generations of employees who, longer term, will bear a growing share of the burden arising from the burgeoning public debt that is fuelled by the Budget stimulus.

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