FEDERAL BUDGET SUMMARY

INDIVIDUALS:

- **Extended tax offset** for low- and middle-income earners **of up to $1,080 for singles or up to $2,160** for dual income families to ease the cost of living. This is on top of the $25.1 billion in tax cuts announced in previous Budgets that is expected to flow to households in 2021-22.

With the additional year of the LMITO, the Government's Personal Income Tax Plan will deliver total tax cuts of up to $7,020 for individuals and up to $14,040 for couples, in total over the period 2018-2022.

- **Modernising the individual tax residency rules**. The Government will replace the individual tax residency rules with a new, simpler framework that is easy to understand and that provides certainty. The primary test will be a simple "bright line" test: a person who is physically present in Australia for 183 days or more in any income year will be an Australian tax resident. Individuals who do not meet the primary test will be subject to secondary tests that depend on a combination of physical presence and measurable, objective criteria. These changes will apply from 1 July following Royal Assent.

SMALL BUSINESS:

- **Extending tax support for business** by extending the two tax incentives announced in the 2020-21 Budget by one year - temporary full expensing and temporary loss carry-back. Combined, the extension of the measures is estimated to deliver a further $20.7 billion in tax relief to businesses over the forward estimates. Treasury estimates that the temporary full expensing and loss carry-back measures, including the extensions, will create around 60,000 jobs by the end of 2022-23.

- **Temporary full expensing** will now be available until 30 June 2023. Temporary full expensing allows eligible businesses with aggregated annual turnover or total income of up to $5 billion to deduct the full cost of eligible depreciable assets. Assets must be acquired from 7:30pm AEDT on 6 October 2020 and first used or installed ready for use by 30 June 2023. The 12-month extension will provide eligible businesses with more time to access the incentive, including projects that require longer planning times and those affected by COVID-19 related supply disruptions. By encouraging eligible businesses to make further investments, the extension will continue to support the creation of jobs and the broader COVID-19 recovery.

All other elements of temporary full expensing will remain unchanged, including the alternative eligibility test based on total income and a track-record of investment, which will continue to be available to businesses. Temporary full expensing applies to around $320 billion worth of investment, and over 99 per cent of businesses, employing 11.5 million workers, are eligible for this measure.

- **Temporary loss carry-back** will also be extended by one year. This will allow eligible companies to carry-back tax losses from the 2022-23 income year to offset previously taxed profits as far back as the 2018-19 income year.

Companies with aggregated annual turnover of up to $5 billion can apply tax losses incurred during the 2019-20, 2020-21, 2021-22 and now the 2022-23 income years to offset tax paid in 2018-19 or later years. The tax refund will be available to companies when they lodge their 2020-21, 2021-22 and now 2022-23 tax returns.

FEDERAL BUDGET SUMMARY (CONTINUED)

- **Patent box.** The Government is encouraging investment in, and the retention of, Australian medical and biotech technologies by introducing a patent box. Over twenty countries currently have patent boxes, including the UK and France.

From 1 July 2022 the patent box will tax income derived from Australian medical and biotech patents at a 17 per cent effective concessional corporate tax rate. Normally corporate income is taxed at 30 per cent or 25 per cent for small and medium companies.

Only granted patents, which were applied for after the Budget announcement, will be eligible.

The patent box encourages businesses to undertake their R&D in Australia and keep patents here.

The Government will follow the OECD's guidelines on patent boxes to ensure the patent box meets internationally accepted standards.

The Government will consult closely with industry on the design of the patent box and to determine whether a patent box is also an effective way of supporting the clean energy sector.

- **Employee Share Schemes.** The Government is supporting Australian companies to attract and retain talent by removing the cessation of employment taxing point for tax-deferred Employee Share Schemes (ESS) that are available for all companies. By removing the cessation of employment taxing point, the measure will result in tax being deferred until the earliest of the remaining taxing points:

• in the case of shares, when there is no risk of forfeiture and no restrictions on disposal
• in the case of options, when the employee exercises the option and there is no risk of forfeiting the resulting share and no restrictions on disposal
• the maximum period of deferral of 15 years.

The change to the cessation of employment taxing point will apply to ESS interests issued on or after 1 July following Royal Assent.

The Government is also making regulatory improvements to the ESS regime, reducing red tape, by:

• removing disclosure requirements, and exempting the offer from licensing, anti-hawking and advertising prohibitions for ESS, where employers do not charge or lend to the employees to whom they offer ESS
• increasing the value of shares that can be issued to an employee with simplified disclosure requirements, and exemptions from licensing, anti-hawking and advertising requirements, from $5,000 to $30,000 per employee per year (leaving unchanged the absence of such a value cap for listed companies), where employers do charge or lend for issuing employees shares in an unlisted company

These regulatory changes will apply three months after Royal Assent of the enabling legislation. This measure is estimated to decrease receipts by $550 million over the forward estimates period. At maturity, which occurs in the medium term, the proposal is expected to have a negligible impact on receipts as the costs of the proposal are expected to be offset by the collection of previous deferrals. These reforms will make it easier for companies to offer ESS to employees giving more Australians a share in the economic value they create through their hard work and ingenuity.

FEDERAL BUDGET SUMMARY (CONTINUED)

- **Increased rights for small business to pause the collection of disputed debts.**
The Government will make it simpler, faster and cheaper for small businesses to pause or modify Australian Taxation Office (ATO) debt recovery actions in relation to cases under review by the Administrative Appeal Tribunal (AAT) by broadening the AAT's powers to pause actions until the underlying dispute is resolved. Such action includes recovery of the underlying debt, application of garnishee notices, and/or related penalties and interest.

Small business entities (including individuals carrying on a business) with an aggregated turnover of less than $10 million per year will be able to apply to the Small Business Taxation Division of the AAT to have ATO debt recovery actions paused until their underlying case is decided by the AAT.

To ensure the increased powers are applied appropriately, the AAT will have regard to the integrity of the tax system in deciding whether to pause or modify the ATO's debt recovery actions.

These new powers will be available to small business entities in respect of proceedings commenced before the AAT on or after the date of Royal Assent of the enabling legislation.

- **Supporting the growth of the digital games development industry in Australia.**
The Government is introducing the Digital Games Tax Offset (DGTO) to promote the growth of the digital games development industry in Australia. Investing in this dynamic and innovative industry will support Australia taking a greater share of the $250 billion global games development market. From 1 July 2022, the DGTO will provide eligible game developers with a 30 per cent refundable tax offset for qualifying Australian games expenditure.

The DGTO will be available in the year when the qualifying expenditure has ceased on a game. The maximum DGTO a developer will be able to claim in each year is $20 million.

Eligibility criteria will require that the game must not have gambling elements and that a minimum of $500,000 qualifying expenditure has been spent on the game.

Details of the eligibility criteria and the definition of qualifying Australian games expenditure will be informed through stakeholder consultation. This measure is estimated to deliver $18.8 million in support to the Australian digital games development industry over the forward estimates.

SUPERANNUATION

- Super Guarantee per month threshold removed. The government has elected to remove the $450 per month Ordinary Time Earnings threshold. The change will commence from the start of the first financial year after the enabling legislation receives Royal Assent. At this point, the government expects this to be from 1 July 2022 onwards.

- **Repealing the work test for voluntary contributions.** Individuals aged 67 to 74 (inclusive) will be able to make non-concessional (including under the bring-forward rule) or salary sacrifice contributions without meeting the work test, subject to existing contribution caps and existing total superannuation balance limits.

FEDERAL BUDGET SUMMARY (CONTINUED)

- **Reducing the eligibility age for downsizer contributions**
The eligibility age to make downsizer contributions into superannuation will be reduced from 65 to 60 years of age. All other eligibility criteria remains unchanged, allowing individuals to make a one-off, post-tax contribution to their superannuation of up to $300,000, per person, from the proceeds of selling their home. These contributions will continue not to count towards non-concessional contribution caps.

- **Relaxing residency requirements for SMSFs**
SMSFs and small APRA funds will have relaxed residency requirements through the extension of the central management and control test safe harbour from two to five years. The active member test will also be removed, allowing members who are temporarily absent to continue to contribute to their SMSF.

- **Legacy retirement product conversions**
Individuals will be able to exit a specified range of legacy retirement products, together with any associated reserves over a two-year period. The specified range of legacy retirement products includes market-linked, life expectancy and lifetime products, but not flexi-pension products or a lifetime product in a large APRA-regulated or public sector defined benefit scheme.

Currently, these products can only be converted into another like product and limits apply to the allocation of any associated reserves without counting towards an individual’s contribution cap.

Social security and taxation treatment will not be grandfathered for any new products commenced with commuted funds. Amounts commuted from reserves will be taxed as an assessable contribution but will not count towards an individual’s concessional contribution cap or give rise to excess contributions.

This measure will take effect from the first financial year after the date of Royal Assent of the enabling legislation.