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Immediate deductions for investment in capital assets

Date of effect	Acquisition of eligible capital assets from 7:30pm AEDT on 6 October 2020 and first used or installed by 30 June 2022

The Government is really keen for business to invest. This measure enables businesses with an aggregated turnover of less than $5 billion to fully expense the cost of new depreciable assets and the cost of improvements to existing eligible assets in the first year of use. This means that an asset's cost will be fully deductible upfront rather than being claimed over the asset's life.

While many businesses were already eligible for an instant asset write-off for asset purchases of up to $150,000, this measure does not cap the asset's cost, and eligibility for the higher instant asset write-off has been significantly broadened and extended (the existing $150,000 instant asset write-off applies to businesses with turnover less than $500 million and will not apply to purchases after 31 December 2020).

Second-hand assets
For businesses with an aggregated turnover under $50 million, full expensing also applies to second-hand assets.

Businesses with aggregated annual turnover between $50 million and $500 million can still deduct the full cost of eligible second-hand assets costing less than $150,000 that are purchased by 31 December 2020 under the existing enhanced instant asset write-off. Businesses that hold assets eligible for the enhanced $150,000 instant asset write-off will have an extra six months, until 30 June 2021, to first use or install those assets.

Small business pooling
Small business entities (with aggregated annual turnover of less than $10 million) using the simplified depreciation rules can deduct the balance of their simplified depreciation pool at the end of the income year while full expensing applies. The provisions which prevent small businesses from re-entering the simplified depreciation regime for five years if they opt-out will continue to be suspended.

***This initiative is subject to the passage of legislation so don't go out on a spending spree just yet!**

If you have any questions or wish to discuss any of the information in this newsletter, please do not hesitate to contact the office on 02 6813 0799

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Ability for companies to carry-back losses

Date of effect	Losses from the 2019-20, 2020-21 or 2021-22 income years

Companies with an aggregated turnover of less than $5 billion will be able to carry back losses from the 2019-20, 2020-21 and 2021-22 income years to offset previously taxed profits in the 2018-19, 2019-20 and 2020-21 income years.

Under this measure tax losses can be applied against taxed profits in a previous year, generating a refundable tax offset in the year in which the loss is made. The amount carried back can be no more than the earlier taxed profits, limiting the refund by the company's tax liabilities in the profit years. Further, the carry back cannot generate a franking account deficit meaning that the refund is further limited by the company's franking account balance.

The tax refund will be available on election by eligible businesses when they lodge their 2020-21 and 2021-22 tax returns.

Currently, companies are required to carry losses forward to offset profits in future years. Under the proposed amendments, companies that do not elect to carry back losses can still carry losses forward as normal.

This measure will interact with the Government's announcement to allow full expensing of investments in capital assets. The new investment will generate significant tax losses in some cases which can then be carried back to generate cash refunds for eligible companies.

Note that loss carry-back rules were introduced some years ago by the Gillard government. The rules were repealed and were only operational in the 2012-13 year.

10,000 additional places in First Home Loan Deposit Scheme

Date of effect	6 October 2020

Announced pre Budget, from 6 October 2020 until 30 June 2021, an additional 10,000 places will be available for first home buyers under the First Home Loan Deposit Scheme to support the purchase of a new home or a newly built home. The scheme enables first home buyers to purchase a home with a deposit of as little as 5% without mortgage insurance. There are currently 27 participating lenders across Australia offering places under the First Home Loan Deposit Scheme.

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Personal income tax cuts

Date of effect	1 July 2020

As widely predicted, the Government has brought forward stage 2 of its planned income tax cuts by two years. Originally intended to apply from 1 July 2022, the tax cuts will come into effect from 1 July 2020 (subject to the passage of the legislation).

At a cost of $17.8 billion over the forward estimates, bringing forward the tax cuts is a controversial move. The Government argues that the measure will "boost GDP by around $3.5 billion in 2020-21 and $9 billion in 2021-22 and will create an additional 50,000 jobs by the end of 2021-22." Others in Parliament believe the measure rewards higher income earners and the money could be better spent elsewhere. The Senate will decide whether the Government's plan comes to fruition.

Stage 3 of the Personal Income Tax Plan that simplifies and flattens the personal income system remains scheduled for 2024-25.

	Tax thresholds		
Tax rate	**Current**	**From 1 July 2020**	**From 1 July 2024**
0%	$0 - $18,200	$0 - $18,200	$0 - $18,200
19%	$18,201 - $37,000	$18,201 **- $45,000**	$18,201 - $45,000
30%			**$45,001 - $200,000**
32.5%	$37,001 - $90,000	**$45,001 - $120,000**	
37%	$90,001 - $180,000	$120,001 - $180,000	-
45%	>$180,000	>$180,000	>$200,000
LITO	Up to $445	**Up to $700**	Up to $700

Bringing forward the personal income tax plan will:

- Increase the top threshold of the 19% tax bracket to $45,000 (from $37,000)
- Increase the top threshold of the 32.5% tax bracket to $120,000 (from $90,000)
- Increase the low income tax offset from $445 to $700

In addition, the LMITO (low and middle income tax offset), which provides a reduction in tax of up to $1,080 for individuals with a taxable income of up to $126,000, will be retained for 2020-21. This measure was to be removed at the commencement of stage 2 of the reforms from 2022-23.

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