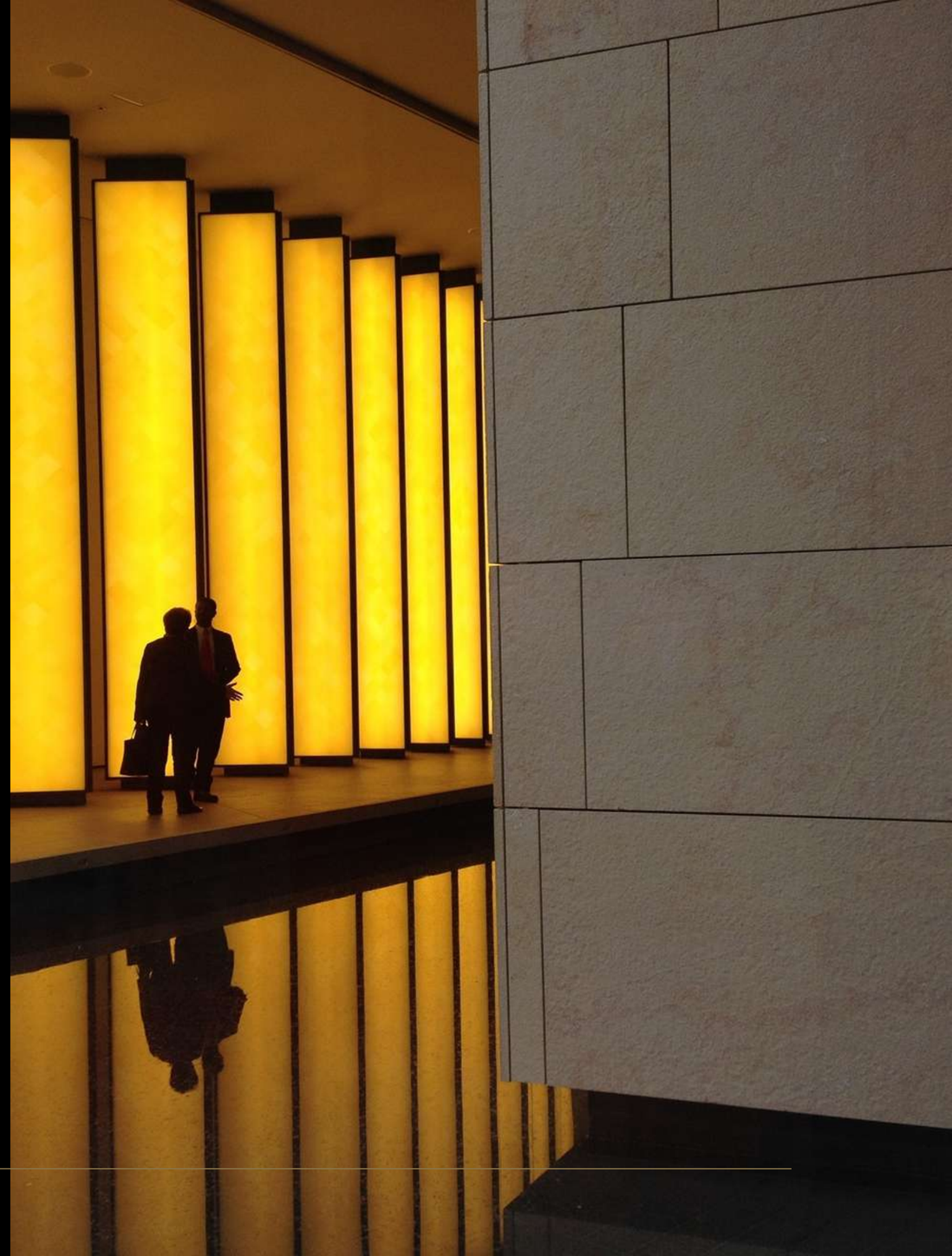
FEDERAL BUDGET 2021

Slomoi Immerman Partners

Chartered Accountants & Advisers



Federal Budget Overview

Securing Australia's Recovery

After a year of pandemic that plunged Australia, and indeed the world, into the greatest economic crisis since the Great Depression, the Treasurer Josh Frydenberg triumphantly declared in his Federal Budget address that “Australia is coming back”.

Arguably Australia has weathered the crisis better than most, with the economy contracting by just 2½% compared to the 8% suffered by a number of the Euro economies and 5% by Canada. Further, employment levels are now above those pre-pandemic.

While Jobkeeper and JobSeeker have undoubtedly helped businesses and people in their time of need, it has not come without a cost – before COVID hit, the government was on track to deliver the first surplus in many years. Now the deficit has hit $161 billion, with net debt $617 billion (30% of GDP) this year and increasing across the forecast period. However, this is still half that of the UK’s and US’s debt levels and importantly, consumer confidence is at an 11 year high.

The focus of the Treasury has shifted now from crisis management to formulating protection measures and plans to create a more resilient economy.

Protection against the still pervasive virus with funding for vaccine rollouts, contact tracing and telehealth. Creation of jobs stimulated by personal tax relief and the extension of the ability to write off eligible assets in full. With interest rates currently at record lows, the Government clearly sees its role is to fuel the economy, increase employment and secure wages growth.

Pleasingly, economic security and protection for women is also a stated focus of this Budget. Measures were announced to increase female work participation with targeted investment in childcare, to provide financial support and assistance in the area of women’s safety and to effect changes to contributions into superannuation. Other superannuation announcements targeted at older Australians are also welcome.

To drive Australia’s competitiveness on the world stage, there were a range of measures aimed at stimulating commercial innovation and attracting the best of overseas talent.

This is a Budget of big spending - $110 billion on an infrastructure pipeline, funding for the NDIS and aged care systems, mental health initiatives and environmental concerns. But the Treasurer is confident that we can support this record funding with the economy being forecast to grow by 1¼% this year and to 4¼% next year. This budget is his blueprint to secure our economic recovery.

As “Team Australia” we have endured unprecedented uncertainty and hardships in the last year. Let’s hope he is right.

Shane Finstock

Director, Taxation
Slomoi Immerman Partners

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You will notice that we have included our own review system alongside each of the measures. They have been rated on a scale of 1 to 5, to broadly reflect the importance to private and family groups and the likely effectiveness of the measure to the broader taxpaying community.

The information contained in this Budget summary is intended to provide an overview of the proposed measures and is not intended in any to be a substitute for tax advice. We note that the Budget contains announcements of proposed changes to the law and until legislation has been passed, no certainty can be provided. Therefore, you should always obtain personalised advice for your particular circumstances. Please reach out to your contact at Slomoi Immerman Partners for further details.

01

Business Tax Relief

Full Expensing of Assets

In a surprise announcement, the Government will extend the regime for the full expensing of depreciable assets by a further year. This is great news for those planning to invest in equipment, vehicles and other business assets.

Assets acquired from 6 October 2020 (the date of the last Federal Budget) can be written off in full for tax purposes, provided they are used or installed ready for use by 30 June 2023. Some of the key eligibility criteria:

- Applies to businesses with turnover below $5B;
- No limit applies to the value of the asset that can be written off;
- Only businesses with an aggregated turnover below $50M can write off the purchase of second hand assets;
- Does not apply to building works.

There may be a catch for businesses operating out of Trusts or Partnerships and that use the simplified depreciation tax rules as they will be required to write off the balance of any depreciation pools. Although it may result in less tax payable, it could lead to much higher tax bills in later years where the tax depreciation shield is no longer available. This is particularly so for beneficiaries or partners paying tax at marginal rates.

Tax Loss Carry Back

With the extension of the full expensing of assets for a further year, the tax loss carry back rules have also been extended to the 2023 income year. The two rules are connected in that with additional asset write-offs, the likelihood of incurring a tax loss increases.

Companies that incur a tax loss when they lodge their 2021 tax return, may be eligible to carry back such tax losses against tax paid in previous years.

This will effectively allow them to “cash in” their tax losses and obtain an immediate tax refund. For a company to carry back a tax loss when lodging its 2021 company tax return:

- A tax loss needs to have been incurred in the 2020 or 2021 income years;
- The company paid tax in the 2019 or 2020 income years;
- The company has a positive franking balance; and
- Has turnover of below $5B.

Companies incurring a tax loss in their 2022 and/or 2023 tax returns, may also be eligible to carry back such tax losses.

Unfortunately, the Budget hasn’t extended the loss carry back rules to Trusts or Partnerships. There are many private businesses that don’t operate in a company structure and therefore can’t benefit from this loss carry back opportunity.

Superannuation

02

The Budget contains a range of superannuation measures which will apply from 1 July 2022, with a particular emphasis on enhancing flexibility for older taxpayers.

Repealing work test

The work test for voluntary non-concessional and salary sacrificed superannuation contributions for taxpayers 67 to 74 years old will be repealed.

Extending access to downsizer contributions

Minimum age for downsizer contributions will be lowered from 65 to 60. Taxpayers nearing retirement will be able to make a one-off after-tax contribution of up to $300,000 per person (or $600,000 per couple) when they sell their principal place of residence which they have owned for at least 10 years.

$450 per month minimum super guarantee to be removed

Employers will now need to make superannuation guarantee payments for employees earning less than $450 in monthly wages.

Increase in amount of voluntary contributions that can be released under First Home Super Saver Scheme

The maximum amount of voluntary contributions that can be released under the First Home Super Saver Scheme will be increased from $30,000 to $50,000.

> With the rapid increase in property prices and the extension of access to downsizer contributions announced in the budget, more older Australians will be able to contribute some of the wealth generated from the sale of their principal residence towards their superannuation.

LAURENCE SLOMOI, DIRECTOR

Attracting Global Talent

03

Relaxation of some strict tax rules should attract talent to Australian shores and thereby aid our economic recovery from Covid-19.

Tax Residency

Tax residency rules for individuals are to be significantly simplified. A bright line test will be introduced such that persons entering Australia will only be treated as Australian tax residents where they remain in Australia for greater than 183 days.

This will simplify the grey area of determining who becomes an Australian tax resident and the resulting tax compliance obligations that go with it. With lower compliance costs, this will help globally mobile employees once international travel resumes.

The changes to the residency rule, will come into effect on 1 July following the law being passed by Parliament.

Employee Share Schemes

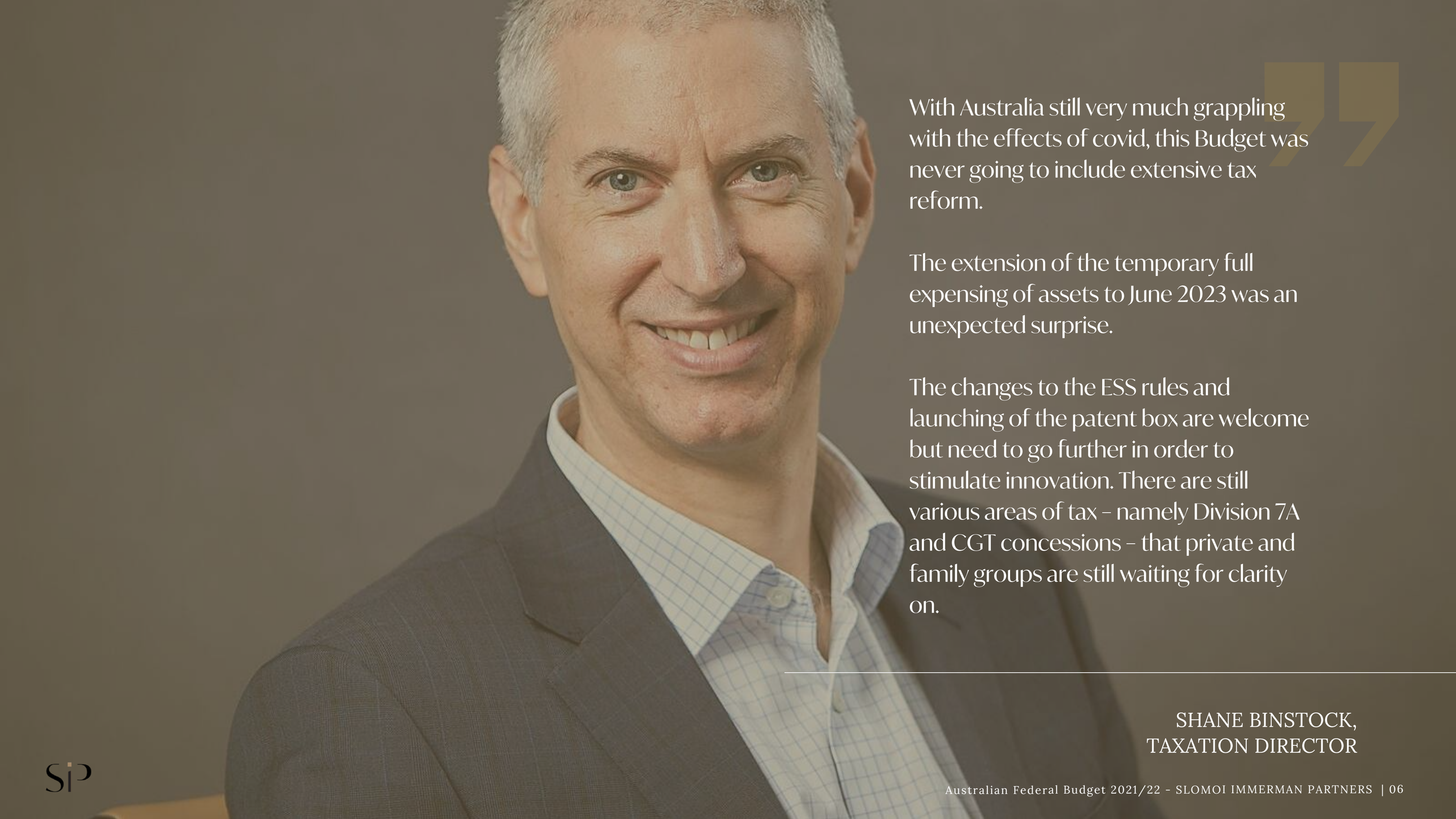
Employee Share Schemes ("ESS") are used by a number of companies and particularly start-up enterprises as a way to incentivise and retain their employees. The current ESS rules are seen as an impediment to attracting talent in the tech sector.

The ESS tax rules are complex. Often, the employee receiving a share in the employer is taxed prior to disposing of the underlying share ie. taxed on the value of the share or option but with no ability to realise the value. These issues are amplified for employees of private companies given limited liquidity.

Under current rules, employees are taxed on the value of the ESS interests they hold when they change jobs. Apart from being a disincentive to changing jobs, the employee is taxed on something that may not yet be convertible to cash. The cessation of employment taxing point will be removed for newly issued ESS interests, once the change to the law has been approved.

Certain regulations for those companies that provide loans to their employees participating in an ESS have also been relaxed.

Although not announced in this year's budget, a big step forward would be to only tax recipients when they ultimately sell their shares, rather than on issue or where disposal restrictions are lifted.



With Australia still very much grappling with the effects of covid, this Budget was never going to include extensive tax reform.

The extension of the temporary full expensing of assets to June 2023 was an unexpected surprise.

The changes to the ESS rules and launching of the patent box are welcome but need to go further in order to stimulate innovation. There are still various areas of tax – namely Division 7A and CGT concessions – that private and family groups are still waiting for clarity on.

SHANE BINSTOCK,
TAXATION DIRECTOR

Fuelling Innovation

04

There have been some welcome announcements for the tech, software and medical sectors.

Patent Box Regime

Like many jurisdictions around the world, the long called for patent box regime has been introduced, albeit in a limited format. A reduced tax rate of 17% will apply to income derived from Australian medical and biotech patents under a 'patent box' scheme. The patent box will apply from 1 July 2022, with a reduced tax rate on income derived from eligible patents capped at 17%.

Although the patent box will only apply to the medical and biotech industries, we are hopeful that it will be expanded to other innovative and high tech sectors.

Tax Depreciation for Intangible Assets

Eligible intangible assets will no longer be required to be depreciated over their statutory effective lives. Rather, the effective life of such assets can be self-assessed. Taxpayers will then have the choice to self-assess or apply the existing statutory effective life rules. This will closer align with the treatment of tangible assets, potentially bringing forward significant deductions.

These rules should apply from 1 July 2023, coinciding with the end of the temporary full expensing of assets on 30 June 2023.

Eligible intangible assets include:

- Patents
- Registered designs
- Copyrights
- In-house software
- Licenses

> A future focused, big spending budget delivering both targeted incentive programs and broad based tax relief to encourage the ingenuity and resilience of Australian businesses and communities.
>
> Fantastic to see such a significant investment in and commitment to the social infrastructure of future generations.

CAMERON FALT, DIRECTOR

ATO: Friend or Foe?

05

The Australian Taxation Office ("ATO") has been linked to the following measures announced in the Budget.

Global Business and Talent Attraction Taskforce

As part of the measure to attract global talent and businesses to invest and relocate to Australia, the ATO will offer an early engagement 'concierge' service to foreign investors, providing prompt tax advice and certainty on transactions prior to arriving in Australia.

Not for profits (NFPs) to report tax exemption eligibility to the ATO

We know many of our clients sit on NFP boards. You may be interested to know that from 1 July 2023, NFPs will be required to report eligibility for income tax exemptions to the ATO. An online reporting system will be introduced for NFPs to annually self-review their eligibility for income tax exemptions.

ATO Debt Recovery of Small Business

Making it easier for small businesses with an aggregated turnover of less than $10M per year to pause debt recovery action.

Increased powers have been provided to the Administrative Appeals Tribunal (AAT) to pause or modify ATO debt recovery actions (such as garnishee notices and the recovery of general interest charge or related penalties) until the dispute is resolved. These new powers will make it simpler, faster and cheaper for small business than going through the court system.

ATO Compliance Programs

Although not raised directly in the 2021-22 Federal budget, the ATO continues to focus on its tax performance programs. The ATO is seeking to have specifically tailored and one-on-one reviews of family groups. Of relevance will be:

- The Next 5,000 Review – family groups that together control wealth of more than $50M.
- Medium and Emerging Private Groups – family groups that control wealth between $5M and $50M. Businesses with an annual turnover of more than $10M, that are not public or foreign owned and are not linked to a high wealth private group.

Stimulus & Spending Measures

06

Home Ownership & Housing Affordability

In addition to the downsizer contributions previously referred to in the Superannuation section, the Government will provide additional measures to help more Australians own their home sooner.

This follows on from the HomeBuilder program which will support more than $30B in residential construction with more than 120,000 Australians applying for the grant. As part of the Budget, the Government will:

- Establish the **Family Home Guarantee** with 10,000 guarantees made available over four years to single parents with dependants. The Family Home Guarantee allows them to purchase a home sooner with a deposit of as little as 2%;
- Expand the **New Home Guarantee** for a second year, providing an additional 10,000 places in 2021-22. First home buyers seeking to build a new home or purchase a newly built home will be able to do so with a deposit of as little as 5%; and
- Increase the maximum amount of voluntary contributions that can be released under the **First Home Super Saver Scheme** from $30,000 to $50,000.

> With property prices continuing to surge across the country, the New Home Guarantee and First Home Super Saver Scheme are welcome initiatives. The question is whether these will be enough to help bridge the affordability gap.

GARY IMMERMAN, DIRECTOR

Stimulus & Spending Measures

06

Other Stimulus, Support & Spending Measures

The Budget contains various stimulus measures across a number of industries to sustain SMEs through the pandemic and enable them to recover and invest for the future. We have selected the following that may be of interest:

- **SME Recovery Loan Scheme** – to assist lenders in providing cheaper credit to SMEs with a turnover of up to $250M and that were recipients of the JobKeeper. An increased government guarantee of 80 per cent; a higher maximum loan size of $5M; maximum loan term of 10 years; and interest rates capped at around 7.5%. per cent.

- **Building skills for the future** - $6.4B has been earmarked to help build the skills that Australia's economy needs via more apprenticeships, building on the Government's successive reforms and investments in skills, and providing a further investment in free or low-fee training places.

- **Tax Relief for Brewers & Distillers** - Eligible brewers and distillers will receive full excise refunds with a cap of $350,000 from 1 July 2021. This will bring the refund up from $100,000 to a maximum of $350,000, in line with the wine equalisation tax (WET) producer rebate. There are about 600 brewers and 400 distillers across Australia, most of which operate in rural and regional areas.

- **Hospitality & Tourism** -The Government will provide further support to employers in the tourism and hospitality sectors to help them find workers, by temporarily allowing student visa holders to work more than 40 hours per fortnight.

Women in Focus

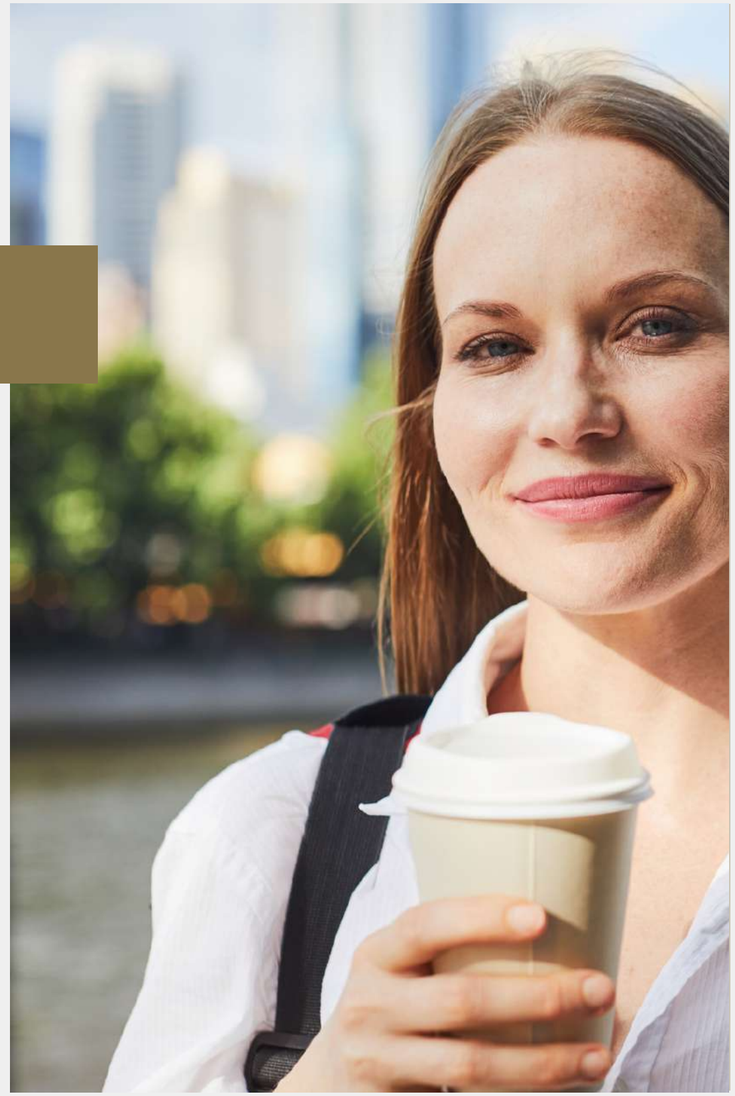
07

This year's budget highlighted many new initiatives and additional funding to existing services aimed to improve women's safety, economic security, and health and wellbeing.

With the onset of the COVID-19 pandemic, women recorded a steeper fall in employment, coupled with a drop in paid working hours. Various factors, including workplace restrictions in female-dominated industries and the need to look after their children during school and childcare closures, contributed to these trends.

A snapshot of the measures announced in the budget to support women through the pandemic recovery and beyond, include:

- **Increased child care subsidies:** $1.8b is being committed over the next five years beginning 1 July 2022, with the subsidy increasing for the second and subsequent children in childcare up to a maximum rate of 95%. This measure should assist parents returning to the workforce.
- **Increased funding for women's safety measures:** $1.1b will be put towards addressing violence against women and children, including additional funding for existing programmes
- **Increased funding for cancer screening and treatment:** $100M has been allocated to improve early detection of breast and cervical cancers by screening programmes, along with further funding for new and amended PBS listings for vital cancer medicines;
- **Supporting women's job training and upskilling:** $3.2b will committed to extend the JobTrainer Fund – of which 56% of course enrolments were taken up by women – until 31 December 2022, and expand the Boosting Apprenticeship Commencement (BAC) wage subsidy programme by providing thousands of additional support services over four years for women in non-traditional trade occupations.
- **Removal of the $450 per month minimum income threshold for Superannuation support:** currently employees are not eligible for superannuation support from their employer where monthly income is below $450. Of the workers to benefit from this change, it is estimated that around 63% are women.



It would appear that a missing piece to the Budget is that it does not adequately address the issue of availability and access to funds by SME's from the Banking sector.

Banks are struggling to keep pace with the surge in demand in the number of applications, mainly as a result of the Royal Commission findings & recommendations. This is having a negative impact on SME's and is also hindering the pace of recovery and growth of the economy.

JOHN MABILIA, DIRECTOR

Previously Announced Tax Changes

08

Here is a recap of some of the key tax measures from previous budget announcements that are scheduled to be implemented from 1 July 2021 and should be considered as part of your year end tax planning.

Personal Income Tax Rates

Below are the current individual resident income tax rates (exclusive of the Medicare levy). There are no further changes to individual income tax rates for the 2021-22 income year.

Taxable income	Tax on this income
$0 - $18,200	Nil
$18,201 - $37,000	19c per dollar over $18,200
$37,001 - $90,000	$5,092 + 32.5c per dollar over $45,000
$90,001 - $180,000	$29,467 + 37c per dollar over $120,000
$180,001 and over	$51,667 + 45c per dollar over $180,000

Note, originally due to end in the 2021 income year, it was announced in the Budget that the Low & Middle Income Tax Offset (LMITO) will be extended for a further year. This will deliver tax benefits of up to $1,080 for individuals or $2,160 for dual income couples. Stage 3 of the legislated tax plan won't commence until the 2025 income year.

Company Tax Rate

The company tax rate will drop from 26% to 25% for the 2022 income year. This may be relevant for the amount of any franked dividends to be paid prior to 30 June 2021.

SBE Changes

Small business entities (i.e. those with aggregated turnover below $50M), can now access the following:

- From 1 April 2021, no car parking fringe benefits where the car is not parked in a commercial car park;
- From 1 April 2021, employers can provide staff with multiple work-related electronic devices eg. laptops, tablets and mobile phones. Previously it was only one device per year.
- From 1 July 2020, an immediate deduction is available for certain start-up expenses and prepaid expenditure.

Previously Announced Tax Changes

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Here is a recap of some of the key tax measures from previous budget announcements that are scheduled to be implemented from 1 July 2021 and should be considered as part of your year end tax planning.

Superannuation

	Current	From 1 July 2021
Superannuation Guarantee percentage	9.5%	10%
Concessional contribution cap	$25,000	$27,500
Non-concessional contribution cap *	$100,000	$110,000
Transfer balance cap	$1,600,000	$1,700,000
Account based pension minimum withdrawal	50% reduction	No reduction

* Contribution and Bring forward arrangement eligibility criteria still apply

Contributors

Shane Binstock

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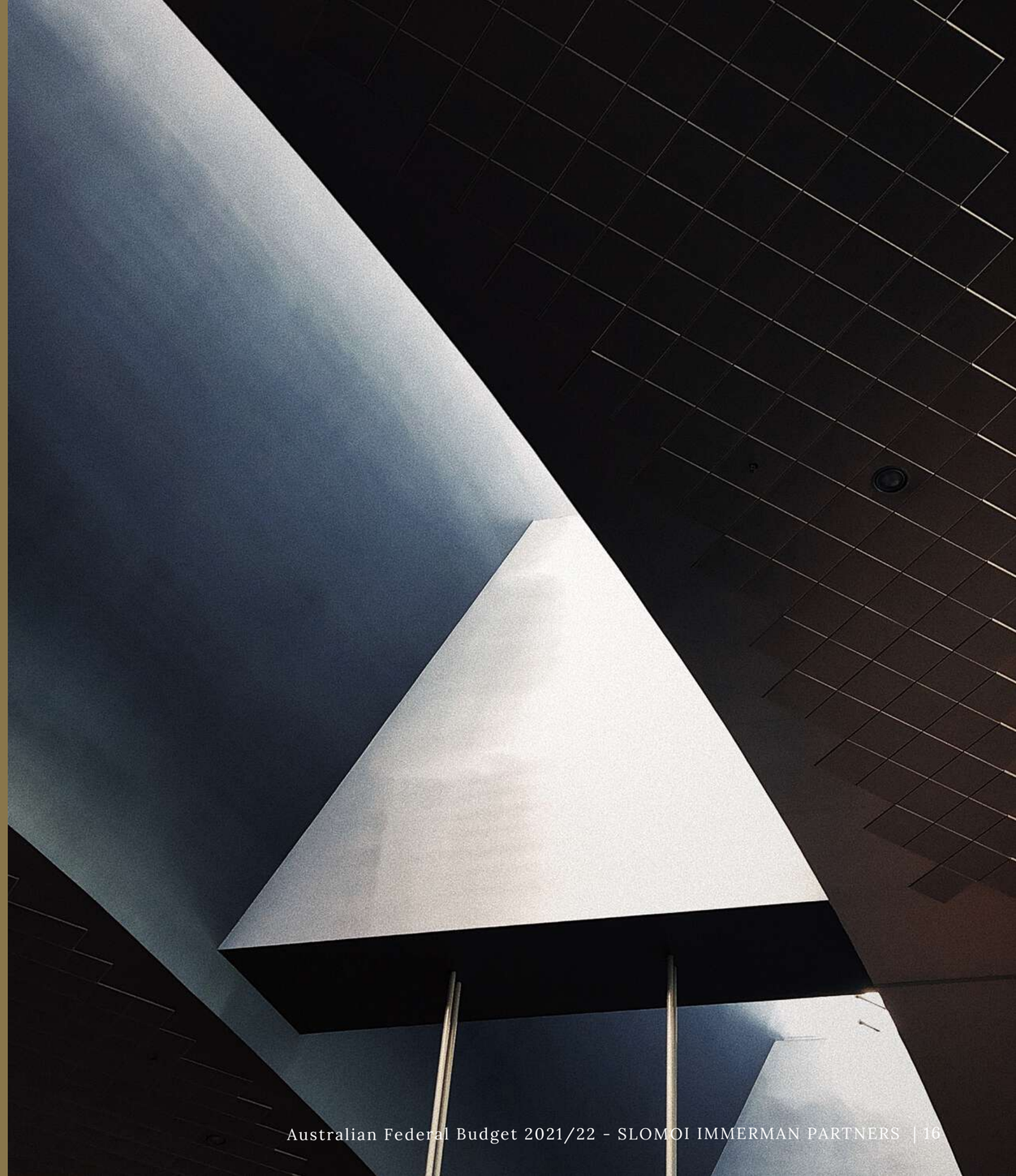
Taxation

Shane has over 20 years of experience, having worked within the tax consulting practices of leading mid-tier firms. He joined Slomoi Immerman Partners in February 2020 to lead their tax practice, drawn in by a company that shares his commitment to client service. Shane's focus has primarily been advising large private and family owned Groups, including high-net-wealth individuals. Shane also works closely with a number of managed funds and collective investment vehicles. He advises on a broad range of tax issues, and with developments to Australia's business landscape, he has recently been advising clients looking to expand overseas or structure their start-up enterprises. Outside of work, Shane enjoys tracking down Melbourne's best coffee and supporting his beloved Carlton football team. With two daughters (aged 14 & 11) and identical twin boys (aged 5), Shane is kept very busy on weekends by his beautiful family.

I would like to acknowledge the contribution of my fellow directors and additional team members:

- Vicky Tang
- Jonathon Proposch
- Andrew Eddy

Everyone has helped to produce this publication overnight and this is a testament to the team at Slomoi Immerman Partners – its never about us personally but what we can do for our colleagues and clients.



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