How Does the 2022 Federal Budget Affect You?

I have heard and read all sorts of comments about the Budget. That was it an election budget. That it wasn't a typical election budget. What is factual though is that there weren't that many announcements. The research house's white paper we issued on Friday was only 21 pages whereas it was 30 odd pages 3 years ago and more than double that on other occasions. That said, there is still a great deal to consider.

So how does affect you?

What do you stand to gain?

What do you stand to lose?

Read on … (remembering that the following is written for our client base so does not consider businesses with turnover in excess of $50million).

Businesses

Technology investment boost
A technology investment boost will be claimable on digital adoption expenditure incurred between 29th March 2022 and 30th June 2023. Businesses will be able to deduct 120% of such expenditure up to a limit of $100,000 in both years.

Qualifying expenditure includes expenditure om portable payment device, cyber security systems and cloud based services).

NOTE The deduction for both 2022 and 2023 will be claimable in the 2023 tax year.

TIP Plan your expenditure carefully. You can claim up to an extra $20,000 for both years so you may wish to spread your expenditure across the two years.

TIP If you are not going to spend that much then you might want to defer non urgent expenditure into the 2022/23 year to better juggle your cash flow.

Skills and training boost

A skills and training boost will be claimable on expenditure on training and upskilling employees incurred between 29th March 2022 and 30th June 2024. There is no cap on such expenditure.

NOTE The deduction for the 2022 and 2023 will be claimable in the 2023 tax year whilst expenditure in the 2024 year will be claimable in the 2024 tax year.

TRAP In house training doesn't qualify nor on the job training. Also, no boost is claimable for training or upskilling contractors.

Further sharing of Single Touch Payroll (STP) data

Funds have been set aside to further develop the STP infrastructure so data can be shared with state and territory officers. The obvious focus here is to identify employers not registered for WorkCover or Pay-roll Tax.

PAYG Instalments calculated off live data

Companies and sole traders will be able to choose to calculate and pay PAYG Instalments based off numbers extracted from accounting software.

However, there are many who are scared by this. What happens next once the ATO have access to your accounting file? What about all those mistakes that people make and which the ATO will be able to see before we have corrected them? We fear a wave of enquiry and audit letters from the ATO.

TIP It is supposed to be optional. We strongly recommend not taking up this option. Keep in mind you can always vary your instalment anyway. Furthermore, should there be any over-payment, it can always be claimed back during the year on the next activity statement or within the Tax Return after year end.

Digitising the Taxable Payments Reporting System

The Taxable Payment Reporting System requires prescribed industries to report all payments to contractors. Currently this is an annual obligation. From January 2024, businesses will have the option to report out of accounting software on the same cycle as for activity statements (usually quarterly).

NOTE This initiative is undoubtedly for the ATO to chase offenders earlier. It sounds like extra work even if streamlined. In any case, we believe it is better to only lodge when a reconciliation of the whole year has been completed.

ABN integrity measures deferred

In 2019 we reported that those businesses who had outstanding Tax Returns would have their ABN cancelled.

This measure has wisely been deferred until 1st July 2022. There are so many accountants still with huge numbers of unlodged 2020 Tax Returns due to all the extra covid related work. It would be unfair to punish business owners just because their accountant was side tracked learning, implementing systems and rolling out solutions to all the government support packages.

TRAP Cancelling one’s ABN is one hell of a penalty. Without an ABN, customers will have to withhold 47% of any payment and remit that to the ATO. Sort of destroys cash flow – a lot!

TIP Now would be a good time to check all your suppliers' ABN's are valid and remain active. You can check them at https://abr.business.gov.au/.

TRAP Paying a business the full invoice amount which does not have an ABN or you believe it to be false is subject to a non-deductible fine of 47%.

From 1st July 2023, businesses will be required to confirm their ABN details annually.

NOTE In any case, businesses and super funds are required to update the ABN registry within 28 days for any change.

Covid test expenses

Employer provided covid tests are to be treated as being exempt from Fringe Benefits Tax.

Reduction in GST and PAYG Instalments

GST and PAYG Instalments are increased annually by 10%. For 2022/23, the uplift factor will be reduced to 2%.

Increase in SG super rate

As previously announced, the employer SG contribution will increase from 10% to 10.5% from 1st July 2022.

Individuals

Increase to Low and Middle Income Tax Offset (LMITO)

LMITO, which was and remains due to cease at the end of the 2021/22 year, will be increased by $420.

LMITO, like the Low Income Rebate is paid on a sliding scale. *However*, all LMITO recipients will receive an extra $420 *irrespective* of whether they are entitled to the former maximum amount of $1,080 or something less.

NOTE There will be no adjustment in your pay packet. LMITO is granted upon lodgement of your Tax Return.

$250 cost of living payment

A once off $250 payment will be made to all government age pension and allowance recipients during April. Eligible recipients are not required to do anything to receive this payment.

6 month reduction if fuel excise

The excise will be cut in half for 6 months from 30th March 2022. The legislation has already been passed by both houses of Parliament.

Home guarantee scheme

An increase of 25,000 guarantees to 35,000 guarantees annually to support first time home owners to buy without the need for lenders insurance.

Covid test expenses

Employees can claim a tax deduction for covid tests.

TIP Keep your receipts! And due to its retrospective application to such expenditure from 1st July 2021, you may need to ask your local pharmacist for a print out.

Reduction in PAYG Instalments

PAYG Instalments are increased annually by 10%. For 2022/23, the uplift factor will be reduced to 2%.

Superannuation

Extension of the 50% minimum pension reduction

The 50% reduction in the minimum account based pension has been extended by 12 months to 30th June 2023.

TIP This is a welcome announcement if you have sufficient monies to live off outside super as it is usually attractive to most to keep money inside super where the tax rate is nil on income and capital gains.

NOTE You might still have to draw out more by way of pension in 2022/23 than 2021/22 as your pension balance at the start of this financial year could be higher than the year before. You might have also move into the next pension factor age bracket from 1st July 2022 – for example, someone who has turned 75 in the preceding year will see their pension draw down factor increase from 2.5% to 3.0%.

Other changes

Stand alone announcements

- The removal of ASIC search fees. They weren't expensive anyway but this welcome. So you can now find out for free, amongst other things, the current and past directors and shareholders of any company in Australia.

- Increase in funding to the ATO Avoidance Taskforce. A further $652 million will be allocated. Why? Because they expect to recoup almost four times that (and which past history has shown).

- The Australian Bureau of Statistics (ABS) will work with accounting software providers to develop an application that will extract data for surveys. This has great merit as better decisions can be made with more up to date data. But again we have an example of a government department wanted to access your data before it has been checked and corrected.

What hasn't changed

We also believe it is appropriate to keep in mind the following key things which haven't changed.

Instant asset write-off
The instant asset write-off will end on 30th June 2023. This means that assets first ready for use before July 2023 can still be claimed in full. Assets first installed and ready for use after June 2023 will be subject to the $30,000 deduction limit (still very generous).

NOTE The deductible cost of a car is limited to $60,733 for the 2022 year.

TIP Don't be caught out by supply chain issues – you might need to place your order well before June 2023 to ensure delivery before July 2023.

TIP Utilising this generous tax break may not be the best thing for you – for a number of reasons. You can read more at https://www.mrsaccountants.com.au/blog/ but better to call us to discuss your situation (which we do with all business clients leading up to 30th June).

Franking credits
Franking credits continue to be offset against other tax liabilities, and should they exceed those liabilities, be paid to you as a refund.

Capital gains discounts

The capital gains tax discount rates to individuals, trust and partnerships of 50% and super funds of 33.3% remain in place for assets held for more than 12 months.

Marginal tax rates

Marginal tax rates remain unchanged.

And two other matters of note

The ATO's attack on trusts

Our clients have been e-mailed separately about this.

I wish to be clear and call this for what it is. The ATO thinks they are above the law. They are disregarding existing case law and decades of practice by thinking they have the right to issue a play book rather than seek to have the law amended. One should reasonably expect that any major change in the law should be put before parliament and considered and indeed passed by both houses before becoming law.

The uproar from both the accounting and legal profession seems to have hit a mark as the deadline for submissions to the ATO's draft ruling has been extended by 3 weeks. It is important you make your view heard by sending the pro forma letter we provided to you 3 weeks ago.

And I should add that the official from the ATO who is in charge of this project confirmed in a webinar two weeks ago that if this gets up, you will need to pay us to keep and maintain records of personal expenditure as to how child beneficiaries spent their distribution. As I remarked earlier, who is going to want to pay for that?

Fringe Benefits Tax (FBT)

FBT is the most misunderstood tax. This is proven by the ATO being successful in almost half of all FBT audits. If you are employer, please make sure you are not one of the casualties by promptly returning your FBT questionnaire which was sent to all employer clients last week.

Closing words

We welcome any question you may have.

By mid May we will have learned more about these changes and indeed seen the result of the upcoming federal election. We will be modifying our pre year end tax planning checklist accordingly to ensure you access all the benefits you are entitled to – and also avoid any unwanted outcomes.

We should also remind you that the Budget is only really a set of announcements. Legislation has to be drafted and then passed by both houses of parliament. That said, the fuel excise levy reduction has already been passed into law.