



# FEDERAL BUDGET REPORT 2022-2023



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# OVERVIEW

The Treasurer, the Honourable Josh Frydenberg MP, handed down the 2022-23 Federal Budget at 7:30 pm (AEDT) on 29 March 2022.

The deficit for 2022-23 is expected to be \$78 billion or 3.4% of GDP and it is expected this will halve to 1.6% over the next three years. The Treasurer confirmed unemployment is at 4% - the equal lowest in 48 years. The Treasurer reminded everyone this is significantly lower than what was forecasted last year.

The focus of the Budget is on delivering the following:

- Immediate cost of living relief.
- A long-term economic plan to create more jobs.
- Record investments in essential services.
- Stronger defence and national security.

The Budget includes temporary measures to halve the fuel excise and a one-off \$250 Cost of Living Payment to Australians to assist with cost of living increases. The already legislated low and middle income tax offset has been increased by an additional \$420 which will be delivered to Australians on lodgement of their 2021-22 income tax returns.

For small businesses, the budget includes enhanced tax deductions on the cost of external training provided to employees and cost of business expenses to support digital adoption such as portable payment devices, cyber security or subscription to cloud-based services.

To encourage innovation the patent box regime which was announced in last year's Budget will be expanded to more industries.

No major changes have been announced in relation to superannuation, however the temporary 50% reduction in minimum annual payment amounts will be extended to 30 June 2023.

As many would have expected with an upcoming federal election, the Government has delivered a budget relatively free of controversy and major tax reform, focusing more on the immediate term including cost of living pressures.

Our summaries of the key taxation measures are listed below.

# INDIVIDUAL

## LOW AND MIDDLE INCOME TAX OFFSET

The low and middle income tax offset (LMITO) will be increased by \$420 with taxpayers earning less than \$126,000 receiving the offset on lodgement of their 2021-22 income tax return. The following table highlights the LMITO entitlement for individuals depending on their taxable income during the 2021-22 income year:

Taxable income	LMITO
\$37,000 or less	\$675
Between \$37,001 and \$48,000	\$675 plus 7.5 cents for every dollar above \$37,000
Between \$48,001 and \$90,000	\$1,500
Between \$90,001 and \$126,000	\$1,500 minus 3 cents for every dollar of the amount above \$90,000

## COST OF LIVING PAYMENT

A one-off \$250 economic support payment will be made to eligible recipients to help ease higher cost of living pressures. The payment will be exempt from income tax and will not count as income support for the purposes of any income support payment.

This payment will be made in April 2022 to eligible recipients of the following payments and to concession card holders:

- Age Pension
- Jobseeker Payment
- Farm Household Allowance
- Disability Support Pension
- Youth Allowance
- Parenting Payment
- Pensioner Concession Card (PCC) holders
- Commonwealth Seniors Health Card holders
- Austudy and Abstudy Living Allowance
- Carer Payment
- Carer Allowance
- Double Orphan Pension
- Veterans' Affairs payment recipients and Veteran Gold card holders



## OUR THOUGHTS:

We are supportive of the increase to the LMITO and the one-off income support payment. Making targeted changes to ensure the most vulnerable individuals receive support is crucial in the current economic climate.

## COVID-19 – DEDUCTIBILITY OF TESTS

Costs incurred by an individual in relation to a COVID-19 test to attend a place of work will be tax deductible from 1 July 2021. FBT will not be incurred by businesses where COVID-19 tests are provided to employees for this purpose.



## MEDICARE LEVY LOW-INCOME THRESHOLDS

The Medicare levy low-income threshold will increase from 1 July 2021 as follows:

- For singles, the threshold will be increased to \$23,365 (from \$23,226).
- For couples with no children, the threshold will be increased to \$39,402 (from \$39,167).
- For single seniors and pensioners, the threshold will be increased to \$36,925 (from \$36,705).
- The family threshold for seniors and pensioners will be increased to \$51,401 (from \$51,094).

The additional amount of threshold for each additional dependent child or student will be increased to \$3,619 (from \$3,597).

The increase in thresholds will be adjusted to take into account recent movements in the consumer price index.

## HOME GUARANTEE SCHEME - EXPANDED

Under the expanded Home Guarantee Scheme, the Government will make available:

- 35,000 guarantees each year from 1 July 2022 under the First Home Guarantee. Eligible first homebuyers will be able to purchase a new or existing home with a deposit of 5%;
- 10,000 guarantees each year from 1 October 2022 to 30 June 2025 under a new Regional Home Guarantee, to support eligible homebuyers, including non-first home buyers and permanent residents, to purchase or construct a new home in regional areas; and
- 5,000 guarantees each year from 1 July 2022 to 30 June 2025 to expand the Family Home Guarantee announced in last year's Budget. Eligible single parents with children are able to buy their first home or to re-enter the housing market with a deposit of 2%.



# BUSINESSES

## SMALL BUSINESS – SKILLS AND TRAINING DEDUCTION BOOST

Small businesses with an aggregated turnover of less than \$50 million will be able to deduct an additional 20% of expenditure incurred on providing external training courses to their employees. The boost will only apply to external courses provided to employees in Australia or online and will need to be delivered by entities registered in Australia.

In-house training, on the job training and training for persons who are not employees will be excluded for the purposes of the boost.

The boost will apply to eligible expenditure incurred between 29 March 2022 and 30 June 2024. The boost for eligible expenditure incurred by 30 June 2022 can be claimed in the following income year. The boost for expenditure incurred between 1 July 2022 and 30 June 2024 can be claimed in the income year in which the expenditure is incurred.

### Example

ABC Pty Ltd has engaged an entity registered in Australia to provide training to its employees online. The total cost of training was \$10,000.

ABC Pty Ltd will be able to claim 120% (i.e. \$12,000, as a tax deduction in relation to these expenses).

## SMALL BUSINESS – TECHNOLOGY INVESTMENT BOOST

Small businesses with an aggregated turnover of less than \$50 million will be able to deduct an additional 20% of expenditure incurred on business expenses and depreciating assets to support digital adoption such as portable payment devices, cyber security systems or subscriptions to cloud-based services. This will be limited to a \$100,000 cap so only expenditure up to \$100,000 will be eligible for the boost.

The boost will apply to eligible expenditure incurred between 29 March 2022 and 30 June 2023. The boost for eligible expenditure incurred by 30 June 2022 will be claimed in the following income year. The boost for expenditure incurred between 1 July 2022 and 30 June 2023 will be claimed in the income year in which the expenditure is incurred.

### OUR THOUGHTS

As a reminder, even if an entity has qualifying expenditure in excess of \$100,000, small businesses continue to have access to the temporary full expensing provisions until 30 June 2023. So, if expenditure is ineligible to claim a boost because it exceeds the cap, it may be possible to claim 100% of the cost of a depreciating asset under the full expensing provisions.

The 30 June 2023 deadline for this measure is relatively short and businesses could miss out if investments are affected by supply chain issues.



## PRIMARY PRODUCERS – CONCESSIONAL TAX TREATMENT OF CERTAIN INCOME

Proceeds from the sale of Australian Carbon Credit Units (ACCUs) and biodiversity certificates generated from on-farm activities will be treated as primary production income for the purposes of the Farm Management Deposits (FMD) scheme and tax averaging.

The taxing point of ACCUs for eligible primary producers will also be changed to the year when they are sold. Similar treatment will be extended to biodiversity certificates issued under the Agriculture Biodiversity Stewardship Market scheme.

Eligible primary producers are those who are currently eligible for the FMD scheme and tax averaging.

The above changes will apply from 1 July 2022.

## PATENT BOX REGIME – EXPANSION TO AGRICULTURAL SECTOR

The patent box regime will be expanded to the agricultural sector to support innovation. The patent box regime provides concessional tax treatment for companies who commercialise their patents linked to agricultural and veterinary (agvet) chemical products listed on the Australian Pesticides and Veterinary Medicines Authority (APVMA), PubCRIS (Public Chemical Registrational Information System) register or eligible Plant Breeder's Rights (PBRs).

The concessional tax rate of 17% applies to the extent the research and development of the innovation took place in Australia. The Government will consult with industry before settling the detailed design.

### REMINDER

Under the patent box regime, eligible patent income will be subject to an effective tax rate of 17%. Other income is taxed at normal corporate tax rates (25% for base rate entities or 30% for other companies).





## **PATENT BOX REGIME – EXPANSION TO LOW EMISSIONS TECHNOLOGY INNOVATIONS**

The patent box regime will also be expanded to the low emissions technology sector. Companies who commercialise their patented technologies which have a potential to lower emissions will be eligible for the concessional treatment listed above to the extent the research and development of the innovation took place in Australia.

Patents relating to low emissions technology, as set out in the 140 technology areas listed in the Government's 2020 Technology and Investment Roadmap Discussion Paper or included as priority technologies in the Government's 2021 and future annual Low Emissions Technology Statements will be within scope, provided the patented technology is considered to reduce emissions. The Government will consult with industry before settling the detailed design.

## **PAY AS YOU GO (PAYG) TAX INSTALMENTS - COMPANIES**

Companies will be able to choose to have their PAYG income tax instalments calculated based on current financial performance, extracted from their accounting software, with the necessary tax adjustments.

These measures aim to support companies in managing their cash flow and the Government expects systems will be in place by 31 December 2023 with the measure to commence from 1 January 2024.

### **OUR THOUGHTS**

Whilst we appreciate the flexibility this measure provides to companies, the implementation date for the measure is in 2024 and will not necessarily assist in the immediate future.

## **PAYG TAX INSTALMENTS UPLIFT – SMALL AND MEDIUM BUSINESS**

The GDP uplift factor for PAYG instalments and GST instalments will be set at 2% for the 2022-23 income year instead of the 10% rate which could have applied. The 2% rate is only applicable to:

- Businesses with an aggregated turnover of up to \$10 million for GST instalments
- Businesses with an aggregated turnover of up to \$50 million for PAYG instalments

## **EMPLOYEE SHARE SCHEMES – UNLISTED COMPANIES**

Access to employee share schemes (ESS) will be expanded and the Government will reduce red tape so employees at all levels will be able to participate in share schemes.

Where employers make larger offers in connection with ESS in an unlisted company, participants can invest up to:

- \$30,000 per participant per year, accruable for unexercised options for up to 5 years, plus 70% of dividends and cash bonuses; or
- any amount, if it would allow them to immediately take advantage of a planned sale or listing of the company to sell their purchased interests at a profit.

Regulatory requirements for offers to independent contractors will be removed where they do not have to pay for the interest.

## OUR THOUGHTS

We are supportive of reducing red tape and allowing more companies to offer ESS to all levels of employees. Given the current economic climate where staff retention is a critical issue, this measure will provide business with more opportunities to align the interests of employees with those of the business.



## COVID-19 GRANTS – NON-ASSESSABLE NON-EXEMPT INCOME

The following grants have been made non-assessable non-exempt (i.e. not subject to income tax) for the year ended 30 June 2022:

- New South Wales Accommodation Support Grant
- New South Wales Commercial Landlord Hardship Grant
- New South Wales Performing Arts Relaunch Package
- New South Wales Festival Relaunch Package
- New South Wales 2022 Small Business Support Program
- Queensland 2021 COVID19 Business Support Grant
- South Australia COVID19 Tourism and Hospitality Support Grant
- South Australia COVID19 Business Hardship Grant.

## STREAMLING REPORTING – TAXABLE PAYMENTS REPORT

Businesses will have the option to report Taxable Payment Reporting System data on the same lodgement cycle as their activity statements via their accounting software.

Subject to advice from software providers, it is expected systems will be in place by 31 December 2023 and these measures will commence from 1 January 2024.

## STREAMLING REPORTING – PAYROLL TAXES

The Government will facilitate sharing of single touch payroll data with State and Territory Governments on an ongoing basis to cater for pre-filing payroll tax returns. This will facilitate further investments by States and Territories in their own systems to improve lodgement accuracy, reduce compliance costs and save time for the approximately 170,000 businesses have payroll tax reporting obligations.

New South Wales, Victoria, Western Australia, South Australia, Queensland and the Australian Capital Territory are already participating in a trial data transfer to understand how STP data can deliver benefits to their payroll-tax clients. Implementation is expected by late 2023.

## STREAMLING REPORTING – EXCISE

Importers and distributors in the alcohol and fuel sectors with an annual turnover of less than \$50 million will be able to lodge and pay excise and excise-equivalent customs duty on a quarterly basis from 1 July 2023.

# OTHER

## FUEL EXCISE – TEMPORARY REDUCTION

To combat rising fuel prices, the Government has announced a temporary reduction in fuel excise. The excise and excise-equivalent customs duty rate which applies to petrol and diesel will be halved from 44.2 cents per litre to 22.1 cents per litre for 6 months. The excise and excise-equivalent customs duty rates for all other fuel and petroleum-based products, except aviation fuels, will also be halved.

This measure will apply from 30 March 2022 and the price faced by consumers is expected to be reduced by a larger magnitude given GST will be levied on the lower excise rate. Furthermore, to protect Australian consumers, the Australian Competition and Consumer Commission (ACCC) will monitor the price behaviour of retailers to ensure the lower excise rate is fully passed on to Australians.

## SUPERANNUATION - 50% MINIMUM DRAWDOWN REDUCTION

The Government has extended the 50% reduction of superannuation drawdown requirements for accounts-based pensions and similar products to 30 June 2023. This measure allows retirees to reduce the need to liquidate assets in a volatile market in order to satisfy minimum pension drawdown requirements. The minimum drawdown rates remain at:

Age	Minimum draw down rate
Under 65	2.0%
Between 65 and 74	2.5%
Between 75 and 79	3.0%
Between 80 and 84	3.5%
Between 85 and 89	4.5%
Between 90 and 94	5.5%
95 or more	7%

The Government has reiterated its commitment to not introduce any new taxes on superannuation.



## APPRENTICE WAGE SUPPORT

The Boosting Apprenticeship Commencement and Completing Apprentice Commencement wage subsidies have been extended by three months to 30 June 2022. Employers who take on an apprentice or trainee up until 30 June 2022 can gain access to:

- 50% of the eligible Australian Apprentice's wages in the first year, capped at a maximum payment value of \$7,000 per quarter per Australian apprentice;
- 10% of the eligible Australian Apprentice's wages in the second year, capped at a maximum payment value of \$1,500 per quarter per Australian apprentice; and
- 5% of the eligible Australian Apprentice's wages in the third year, capped at a maximum payment value of \$750 per quarter per Australian apprentice.

From 1 July 2022, the Australian Apprenticeships Incentive System will commence. This will support employers of apprentices in priority and non-priority occupations with a wage subsidy, with apprentices in priority occupations entitled to access direct financial assistance.

## AUSTRALIAN TAXATION OFFICE – TAX AVOIDANCE TASKFORCE

The Government will provide over \$300 million each year to the ATO to extend the operation of the Tax Avoidance Taskforce by two years to 30 June 2025.

The taskforce was established in 2016 to undertake compliance activities targeting multinationals, large public and private groups, trusts, and high wealth individuals. It also scrutinises specialist tax advisors and intermediaries who promote tax avoidance schemes and strategies.

## COMPANY REGISTRATION AND LIFECYCLE MANAGEMENT

The Government will streamline fees associated with Australia's Business Registers by moving company registrations and lifecycle management to a modernised platform from 2023-24.

These measures will:

- remove the company's annual late review fee
- reduce the number of fees paid for ad hoc lodgements under current requirements
- remove fees for searches conducted on the new registry website
- provide \$0.3 million to the Department of Treasury to redesign wholesale business register search services (facilitated by third-party services).

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