

Budget 2020 – Taxation: Business

Taxation: Business Overview

Business taxation measures that were introduced to stimulate the economy included:

- temporary full expensing of assets;
- increased incentives for research and development activities;
- allowing a company to claim losses incurred during the crisis against income taxed in previous years; and
- removing FBT from retraining expenditure paid by an employer for its employees.

To the extent that business has the cash flow to spend on these activities, the measures should help to create employment, but the industries most likely to invest in assets and research and development are the male dominated industries of mining, manufacturing and construction.

The carry back loss provision will help companies that were profitable before the economic crisis to stay afloat but many small and medium business will not be eligible.

Taxation: Business

The Budget

The Budget made a number of significant tax changes in respect of both personal and business taxation.

The following business tax changes are designed to support business and encourage investment during the economic crisis.

JobMaker Plan — temporary full expensing to support investment and jobs

Receipts (\$m)	2020-21	2021-22	2022-23	2023-24
Australian Taxation Office	-1,500.0	-11,400.0	-18,100.0	4,300.0

Source: 2020 Budget Paper No 2, Budget Measures 2020-21 — Part 1: Receipt Measures p.20.

Businesses with an aggregated annual turnover of less than \$5 bn will be able to claim the cost of new depreciable assets, or improvements to existing assets, purchased after 7.30 pm on 6 October 2020 and installed ready for use before 30 June 2022. Businesses with a turnover of less than \$50 m can also claim the cost of second-hand assets. Where a business with a turnover up to \$500 m has purchased a second-hand asset under the previously announced rules (Budget

Paper No 2, p. 186, 2020), they can still claim the cost of that asset if installed prior to 30 June 2021.

Businesses with an annual aggregated turnover of less than \$10 m can also write off the cost of assets already held in a simplified depreciation pool, and the opt-out rules preventing them from re-entering the simplified system for five years is suspended.

JobMaker Plan — Research and Development Tax Incentive — supporting Australia’s economic recovery

Receipts (\$m)	2020-21	2021-22	2022-23	2023-24
Australian Taxation Office	-160.0	-210.0	-280.0	-330.0
<i>Related payments (\$m)</i>				
Australian Taxation Office	150.0	240.0	310.0	320.0

Source: 2020 Budget Paper No 2, Budget Measures 2020-21 — Part 1: Receipt Measures p.19.

This measure will increase the research and development tax incentive available to companies engaged in research and development activities. Companies with a turnover of less than \$20m will be entitled to claim eligible expenditure at a rate that is 18.5 per cent higher than their normal tax rate. This change will address the tax differential between base rate entities and other companies.

Larger companies will be entitled to claim expenditure at either 8.5 percent higher than the corporate tax rate where research and development expenditure is less than 2 per cent of total expenditure or 16.5 per cent where it is more than 2 per cent of total expenditure.

This modifies the proposals from the 2019-20 budget, which have not yet passed the Senate.

JobMaker Plan — temporary loss carry-back to support cash flow

Receipts (\$m)	2020-21	2021-22	2022-23	2023-24
Australian Taxation Office	-	-3,120.0	-2,270.0	540.0
<i>Related payments (\$m)</i>				
Australian Taxation Office	1.9	1.2	1.0	0.4

Source: 2020 Budget Paper No 2, Budget Measures 2020-21 — Part 1: Receipt Measures p.21.

The loss carry back measure is designed to provide cash flow support to companies that were profitable before the current economic crisis.

Currently, companies that make a loss can recoup the loss against income in future years, reducing the tax paid in future years. This measure allows a company to claim the loss against taxes already paid in previous years. It is a temporary measure, applying for the tax years ended 20 June 2020, 2021 and 2022; and looking back no further than the 2018-19 income year.

The amount that can be claimed is limited to the greater of the taxable profits in those years, and it cannot exceed the balance in the company franking account. This limits its availability where a company has already paid dividends to shareholders in respect of the earlier years.

Carry back loss provisions are adopted in other jurisdictions. Australia adopted a similar measure in 2013, but it was repealed under the Abbott repeal of the Carbon Price and associated measures.

COVID-19 Response Package — making Victoria’s business support grants non-assessable, non-exempt income for tax purposes

Receipts (\$m)	2020-21	2021-22	2022-23	2023-24
Australian Taxation Office	-	-	-	-

Source: 2020 Budget Paper No 2, Budget Measures 2020-21 — Part 1: Receipt Measures p.14.

Grants to business paid to provide financial support during the economic crisis will not be taxable. Generally as they are to replace income they would be included as income.

Although currently restricted to Victoria, this will be extended to other similar state based schemes for small and medium businesses, on application.

Fringe Benefits Tax — exemption to support retraining and reskilling

Receipts (\$m)	2020-21	2021-22	2022-23	2023-24
Australian Taxation Office	-1.0	-2.0	-2.0	-2.0

Source: 2020 Budget Paper No 2, Budget Measures 2020-21 — Part 1: Receipt Measures p.15.

This measure will ensure that fringe benefits tax is not payable on amounts outlaid by employers to retrain employees where the training is not connected to their current employment. This will not include University places or HECS fees. This is not a temporary measure.

The Government will also consider broadening the circumstances in which an employee can claim self-education expenses to include retraining, which is currently not tax deductible.

JobMaker Plan — supporting small business and responsible lending

Payments (\$m)	2020-21	2021-22	2022-23	2023-24
Australian Securities and Investments Commission	0.3	0.2	-	-
<i>Related receipts (\$m)</i>				
<i>Australian Securities and Investments Commission</i>	<i>0.3</i>	<i>0.2</i>	<i>0.2</i>	<i>0.2</i>

Source: 2020 Budget Paper No 2, Budget Measures 2020-21 — Part 2: Payment Measures p.164.

This proposal was announced on 24 September 2020 to simplify the insolvency process for eligible small business, and complements the loan guarantee announced in March and set out below:

COVID-19 Response Package — Government support for immediate cash flow needs to small and medium enterprises

Payment (\$m)	2019-20	2020-21	2021-22	2022-23	2023-24
Department of the Treasury	-	1.3	1.2	1.3	1.9

Source: 2020 Budget Paper No 2, Budget Measures 2020-21 - Appendix A: Policy decisions published in the July 2020 Economic and Fiscal Update p. 276

Gender implications

Why is this an issue for women?

The business stimulus package has been designed to provide tax incentives to help businesses to keep operating and to maintain employment. This affects women who own businesses, and women who are employed in those businesses. Women are also shareholders in businesses that may be eligible for these incentives.

The [data](#) show that women make up about 33% of business owners in Australia, and that these businesses are primarily in the services sector ([PMC, 2015 figure 2.7](#)). Female employment is also underrepresented in the manufacturing and industry sectors. [ABS data](#) show that women make up 16% of Technicians and Trade Workers and 11.5% of Machinery Operators and Drivers, compared to 70% of Community and Personal Service Workers and 58% of Sales Workers.

What are the 2020 Budget impacts on women?

The largest element of the package is capital intensive: \$26.7 bn over four years for full expensing of assets with a further \$2 bn for research and development expenditure. The full expensing provision is bringing forward a cost that would be spread over the useful life of the plant that has been acquired which could be up to 20 years.

The research and development and full expensing measures provide an opportunity for business to upgrade plant and equipment, and to develop new technologies and processes. While not limited to particular sectors, these measures are likely to be more utilised by businesses in the male dominated manufacturing and mining sectors as these sectors are more reliant on plant and equipment, and the purchases are higher in value. Making this deduction available to businesses with a turnover of up to \$5 bn will also encourage investment by major mining and construction companies.

[ABS data](#) shows in the 2019 year that spending on plant, machinery and equipment in the Mining, Manufacturing and Construction was more than 3 times higher than in the Retail Sales and Health Care and Social Assistance. [ATO data](#) shows that in 2018 claims for the research and development tax incentive were nearly 15 times higher in the mining, manufacturing sectors than retail sales and health care and social assistance.

[Data also show that](#) nearly half of the plant and equipment purchased in 2019 was imported, raising questions over the extent to which spending in these areas will support the Australian economy. The [Treasurer's Budget Speech](#) stated that the immediate expensing and loss carry-back would create 50,000 jobs, which Alan Kohler [has calculated](#) is at a cost of \$652,600 per job over four years.

One of the key concerns is whether business has the cash flow necessary to invest in assets or research and development. Small and medium sized companies are unlikely to have the resources required to make substantial investment. The government has provided support for

companies in financial difficulties by guaranteeing loans and simplifying the liquidation process, but there are concerns that this will prolong the life of a non-viable business.

The loss carry-back measures could be a lifeline for companies that have been profitable, but are experiencing liquidity issues. However the limit on claims to the balance in the franking account will exclude many small and medium companies who pay dividends to shareholders. The limit is appropriate as it excludes profits that have been returned to the shareholders, but the 2017-18 Taxation Statistics (Table 7) shows that fewer than half of private companies with a total income of less than \$100 m, which are more likely to have active female owners, retained a franking credit balance at the end of the year.

Recommendations

1. The asset full expensing measure should be better targeted by reducing the \$5 bn income limit for eligibility and capping the value of the assets eligible for the measure.
2. The asset full expensing measure should not apply to imported assets over a specified value unless a specific case can be made for the job creation capacity of that asset.
3. The funds saved through limiting the measures, as recommended above, should be redirected to increased capacity and quality in the care sector.