2022 FEDERAL BUDGET INSIGHTS

A plan for the times… an election budget

Treasurer Josh Frydenberg handed down the 2022-23 Federal Budget on 29 March 2022, amidst global and local uncertainty, an election looming, drawing on the economic stability Australia has experienced as it rebounds from the COVID-19 pandemic, and presenting a spending pitch to voters.

On the numbers, the Treasurer has forecast a budget deficit for 2022-23 of $78 billion or approximately 3.4% of GDP with national debt peaking in 2025 at 44.9% of GDP, ahead of previous forward estimates.

The Budget offers few measures of reform or change, highlighting instead the Morrison Government's economic track record relative to other western economies, offering some immediate cost of living relief for individuals and families with an additional tax offset, a one-off cost of living payment and fuel excise relief being among the measures proposed.

Small business is supported with additional tax deductions for digital spend and skills, training and apprentice support being announced.

There is no getting away from this Budget's primary goal - a message to the Australian voting community that the government is "realistic, ambitious and optimistic" in planning for the future, expanding infrastructure, strengthening regional capability and renewing focus on national defence (both traditional and cyber).

Business: Steady as she goes

No major tax reform for business

Overall, the Budget contains no major structural changes to business tax or business tax concessions.

However, ahead of the Budget, the Government proposed changes to quarterly business PAYG instalments. The uplift factor will be calculated based on the previous year plus 2% instead of the 10%. This will result in more cash flow to business, but possibly higher catch up tax on lodgement at the end of the financial year. Currently a business or individual can vary instalments if they believe the instalments will be too high but risk general interest charge in the event of an error.

To further assist with ensuring that a company's PAYG instalments more accurately reflect the current year's overall tax liability, the Budget announced that a company will be able to choose to calculate its PAYG instalments on the basis of its "financial performance, extracted from business accounting software, with some tax adjustments". Presumably this would allow a focus on profit for the year as opposed to the existing basis of calculating PAYG instalments on the basis of gross income for the instalment period. To provide sufficient time for software providers to deliver appropriate systems, as well as general consultation, the measure is proposed to commence from 1 January 2024.

Other small business measures previously announced focus on reducing time and red tape:

- Facilitating pre-filling of payroll tax returns through data sharing: The Government will facilitate sharing of single touch payroll data with state and territory governments on an ongoing basis to cater for pre-filling payroll tax returns
- Smarter reporting of taxable payments: The Government will allow eligible businesses the option to report taxable payments reporting system data via software at the same time as activity statements
- Digitalising trust income reporting: The Government will develop systems to ensure all trusts will have the option to lodge income tax returns electronically.

Bonus tax deductions on digital technologies

The Technology Investment Boost will allow small businesses to deduct an additional 20% of the costs of business expenses and the cost of depreciating assets that support digital uptake up until 30 June 2024. This means that for every $100 spent on eligible digital technologies, a $120 tax deduction at the end would be received. For depreciating assets acquired from 7:30pm (AEDT) on 29 March 2022 to 30 June 2023, this will mean a 120% upfront deduction due to the previously extended temporary full expensing measure. For expenses incurred from 1 July 2023 to 30 June 2024, the benefit will be claimed as additional depreciation over the effective life of the asset.

This measure will cover digital technologies, such as portable payment devices, cybersecurity systems and subscriptions to cloud-based services.

Small businesses with an aggregated annual turnover of less than $50 million would be eligible with an annual cap of $100,000 on eligible technology expenditure.

Skills and training boost

Eligible small businesses with an aggregated turnover of less than $50 million will be able to deduct an additional 20% of expenditure incurred on external training courses provided to employees by registered training organisations in Australia (including online delivery format).

Small businesses are encouraged to invest in their workforce to maintain essential skills. This incentive applies to expenditure on external training courses for employees only and excludes in-house, on-the-job training costs or training for non-employees.

The boost for eligible expenditure incurred from 7:30pm (AEDT) on 29 March 2022 to 30 June 2022 will be claimed in tax return for the following income year (i.e. 2023 income year). Eligible expenditure incurred between 1 July 2022 and 30 June 2024 will be included in the relevant income year in which the expenditure is incurred.

This incentive could prove vital to keeping Australia upskilled and generate a skilled workforce for Australia's small business industry, which has been impacted by COVID since 2020, and is a way of giving back to small business for the role they play in driving our economy.

Patent Box Concessions include more industries

The Treasurer announced that the Patent Box Concession (a Patent Box being a regime that creates a lower tax rate for income earned from specific intellectual property) will be extended to include agricultural and low emissions technology innovations, in addition to medical and biotechnology innovations (previously announced in the 2021-22 Federal Budget).

Eligible businesses that devote resources and expenditure to developing intellectual property (IP) in agricultural and veterinary chemical products industries, will have income earned from that IP taxed at a concessional rate of 17% for patents granted or issued after 29 March 2022.

The Government will extend the concession to standard patents granted by IP Australia, utility patents issued by the United States Patent and Trademark Office (USPTO), and European patents granted under the European Patent Convention (EPC) to be eligible.

Private: Treasurer addresses cost of living pressures

Two measures to help make a difference

Two measures announced by the Treasurer aim to ease some of the price pressure being felt by individuals across Australia due to inflation:

- Low and middle income earners (taxable income levels up to $126,000) will receive a one-off $420 cost of living tax offset when lodging their tax returns for the year ending 30 June 2022. Combined with the existing low and middle income tax offset, this could provide a maximum benefit of up to $1,500 for a single income household or up to $3,000 for a dual income household
- Eligible pensioners, welfare recipients, veterans and eligible concessions card holders will receive a one-off $250 cost of living payment in April 2022.

Fuel excise reduction

A temporary halving (for six months) of the Fuel Excise will commence from 30 March 2022.

The current Fuel Excise Rate, which is 44.2 cents per litre, will reduce to 22.1 cents per litre.

Fuel Tax Credit (FTC) refund will remain in place at the level of the reduced Fuel Excise rate.

GST reductions will indirectly occur as GST is on the Fuel Excise Inclusive Rate.

The Road User Charge (RUC), paid by heavy vehicle users travelling on public roads, is not changing. However, the reduction in excise will provide a net benefit to heavy vehicle road users of 4.3 cents per litre.

Easier access to home ownership

With a focus on home ownership there has been a further commitment to home guarantee schemes allowing homes to be purchased with a lower deposit. The previously announced Home Guarantee Scheme provides support to eligible first homebuyers to purchase a new or existing home with a deposit as low as 5%. The number of places per year will be increased from 35,000 to 50,000 from 1 July 2022. Similarly, the previously announced Family Home Guarantee will have 5,000 places per year from 1 July 2022 to 30 June 2025 instead of 10,000 over the period 1 July 2021 to 30 June 2025. Family Home Guarantee assists eligible single parents, with at least one dependent child, to buy their first home or to re-enter the housing market with a deposit of as little as 2%.

In addition, from 1 October 2022 to 30 June 2025, a new Regional Home Guarantee will be implemented with 10,000 places per year. This scheme is to support eligible citizens and permanent residents who have not owned a home for five years to purchase a new home in a regional area with a minimum 5% deposit.

The schemes provide a guarantee by the Government, enabling smaller deposits and reducing the requirement for expensive lenders mortgage insurance.

Reduced pension drawdowns extended

With an election looming, the Budget was expectedly very light on in terms of superannuation with only one announcement, being the extension of the 50% reduction to minimum superannuation drawdown requirements for retirees into the 2023 financial year.

The minimum drawdown rates for 2023 will be as follows:

Age	Minimum Drawdown
Under 65	2%
65-74	2.5%
75-79	3%
80-84	3.5%
85-89	4.5%
90-94	5.5%
95+	7%

This is a positive announcement which allows retirees to avoid having to sell down their investments and therefore retain more capital within their superannuation accounts.

What is perhaps more interesting is the previously announced superannuation measures, such as relaxed residency rules for self-managed superannuation funds, which this budget remains silent on. Given this silence, it is looking increasing likely that these important measures will fall by the wayside until at least after the next election. ■