

# Budget Tax Alert

## Australia's 2022-23 Federal Budget



### Budget Overview

#### At a glance

- ▶ 2022 Federal Budget delivered on 29 March
- ▶ Election year budget had little revenue raising measures – focus on easing cost of living pressures
- ▶ Key business tax measures:
  - ▶ Patent box tax regime expanded to agricultural chemical and low emission technology areas
  - ▶ Temporary 50% reduction in fuel excise rates for 6 months
  - ▶ Additional tax deductions for targeted small business investment
- ▶ Employee share schemes regulatory framework simplified
- ▶ Cost of living tax offset & cost of living payment
- ▶ Extended 50% reduction in superannuation minimum drawdown rates
- ▶ Additional funding for ATO Tax Avoidance Taskforce

The Australian Federal Budget 2022 was delivered on 29 March 2022 by the Federal Treasurer Josh Frydenberg.

This Tax Alert focuses on the key announced tax measures that impact your business tax planning and compliance processes. The broader economic and policy issues in the 2022 budget are on the EY Australia [website](#).

From a business perspective, last night's Federal Budget should have had two principal tasks. The first was to avoid creating unwanted demand that might push the Reserve Bank to raise rates sooner or push them higher. The second was to unlock supply constraints arising from a lack of skilled migrant workers, globally disrupted supply chains and the challenges of a decarbonizing economy all in order to increase the productive capacity of the economy.

But easing cost of living pressures was clearly the Government's priority in this pre-election Budget. There were some encouraging announcements for business, but what was lacking were the reforms needed to improve Australia's productivity.

On the tax front a number of miscellaneous items are welcomed, including an expansion of the Patent Box Tax Regime to new innovations in the agricultural chemical and low emission technologies areas, a 20% bonus deduction for small business training and technology incentives, positive changes to better encourage employee share schemes and easier tax administration measures related to PAYG systems.

However, none of this is enough to move the dial on the significant investment needed to produce meaningful productivity increases. Indeed, the expiry soon of the 100% Full Tax Expensing measure for plant and equipment purchases, will have a material adverse impact on additional investment and productivity enhancement.

Overall, therefore it is hard to see where the necessary productivity gains are going to come from which typically underpin long-term, non-inflationary increases in wage growth.

## Business tax measures

### Expanding Patent Box Tax Regime

This Budget builds on last year's announcement of a new Australian patent box regime, by:

- ▶ Expanding support from the current focus on medical and biotechnology industries to new innovations in the agricultural chemical and low emission technology areas. The expanded patent box regime will provide an incentive for companies to innovate with a concessional patent tax rate of 17% to apply to income derived from patents which have the potential to lower emissions, or patents linked to agricultural and veterinary chemical products listed on the Australian Pesticides and Veterinary Medicines Authority (APVMA), PubCRIS (Public Chemicals Registration Information System) register, or eligible Plant Breeder's Rights (PBRs). This will apply to patents granted or issued after 29 March 2022, and for income years from 1 July 2023
- ▶ Expanding the 2021 Budget measure to allow patents granted or issued for medical and biotechnology innovations after 11 May 2021 to be eligible as well as allowing standard patents granted by IP Australia, utility patents issued by USPTO and European patents granted under EPC to be eligible. However, taxpayers will still only benefit from the concessional tax treatment to the extent that the R&D occurred in Australia. (In Bill introduced.)

While it is pleasing that the patent box regime has been extended to new industry areas, it is disappointing that it still applies to a narrow range of industries, as most global patent box regimes are industry agnostic. We also note that there is a misalignment of the eligible patent dates between different industry sectors. It is expected that there will be a consultation period around these proposed measures.

### Temporary Reduction in Fuel Excise

In a targeted response to rapidly rising fuel prices, fuel excise rates will be reduced by 50% for the next six months. The Government expects that the reduction in excise will translate to a household saving of between \$9.72 to \$19.45 per tank of fuel depending on the size of the vehicle. Business consuming fuel in transport on public roads should also see some benefits with an expected reduction of 4.3 cents per litre for fuel used in heavy vehicles and up to \$17.68 per tank of fuel for their light vehicle fleet. Despite the immediate reduction in excise rates it can be expected to take up to 2 weeks for those savings to reach petrol bowsers.

### Small Business Measures

#### Technology Investment Boost

Businesses with aggregated turnover of less than \$50m pa will be entitled to an additional 20% tax deduction for eligible expenses and assets acquired relating to digital uptake, such as portable payment devices, cyber security systems or subscriptions to cloud-based

services. There is an annual spending cap of \$100,000 which will cap the additional deduction at \$20,000 pa.

The measures will apply from Budget night (claims for expenditure incurred by 30 June 2022 to be made in the following income year) until 30 June 2023.

#### Skills and Training Boost

Small businesses will also be entitled to the same 20% additional deduction for eligible expenditure on Australian registered external training courses for employees only. This measure will apply to eligible expenditure from Budget night (claims for expenditure incurred by 30 June 2022 to be made in the following income year) until 30 June 2024.

#### COVID-19 Business Grants

Payments from certain additional State and Territory COVID-19 business support and grant programs have been made non-assessable non-exempt (NANE) for income tax purposes until 30 June 2022, under the current measure.

### Grant Funding for Industry - Commitment to Advancing the Australian Economy

The Government will provide \$3.9 billion in funding to incentivise industry to invest in strategic areas of growth that are designed to shift Australia into a modern and globally competitive economy. The Government has made a commitment to increase regional growth, continue to modernise local manufacturing capability for global competitiveness, stimulate sovereign capability in the space sector and create a new resilient critical minerals industry.

This includes:

#### ▶ Regional Accelerator Program

\$2.0 billion over 5 years will be provided to establish a Regional Accelerator Program (RAP) to drive transformative economic growth and productivity in regional areas to access programs to target local priorities in infrastructure, manufacturing and industry development, skills and training, research and development, and education

#### ▶ Boosting Modern Manufacturing

\$328.3 million over 5 years to further support the Modern Manufacturing Strategy, \$250 million of which will be used to extend the Modern Manufacturing Initiative to support high-impact projects in the National Manufacturing Priority areas and \$53.9 million to extend the Manufacturing Modernisation Fund

#### ▶ Critical Minerals Strategy

Support for the critical minerals sector with an investment of \$250.5 million over 5 years to help early-stage critical mineral projects reach market readiness. This includes \$200 million for a Critical Minerals Accelerator Initiative and \$50.5 million for the establishment of an industry-focused R&D centre

## ► **Support for the Australian Space Industry**

\$1.3 billion from 2021-22 will be allocated to grow the Australian space sector and the space manufacturing industry, \$1.2 billion of which will be used to establish a National Space Mission for Earth Observation

## **Pre-budget Announcements**

The Government announced several budget tax measures ahead of budget night.

### ***Cash flow support and red tape reduction to help small business***

Package of measures to slash red tape and boost cashflow of small business entities (aggregated turnover less than \$50m) and sole traders:

- New measures to automate tax reporting requirements and align instalment payment obligations with financial performance
- Allowing companies to calculate PAYG instalments based on financial performance, accessing automatic refunds if performance declines - expected by 1 Jan 2024
- Facilitating Single Touch Payroll data sharing with State & Territory Governments to cater pre-filling payroll tax returns - expected late 2023
- Allow option to report taxable payments reporting system data at same time as activity statements - expected by 1 Jan 2024
- Ensure all trusts have option to lodge income tax returns electronically - expected by 1 Jul 2024
- Allow alcohol and fuel sector SMEs to lodge and pay excise/excise equivalent customs duty on a quarterly basis - from 1 Jul 2023

The GDP uplift rate that applies to small to medium businesses, sole traders and others who use the instalment amount method for PAYG and GST instalments will also be reduced from 10% to 2% for the 2022-23 income year.

### ***Farmers to access primary production concessions for carbon credit income***

Proposed that primary producers will treat revenue from the sale of Australian Carbon Credit Units (ACCUs) and biodiversity certificates as primary production income, providing access to income tax averaging arrangements and the Farm Management Deposit Scheme. The Government will also change the taxing point of ACCUs and biodiversity certificates to the year they are sold. Application from 1 July 2022.

## **EMPLOYMENT TAX**

### **Employee Share Schemes - Regulatory Simplification**

Following last year's Budget announcement and subsequent Treasury consultation on exposure draft (ED) law, the Government has confirmed they will

reduce red tape for employee share schemes (ESS) by simplifying the regulatory framework to make ESS offers. Based on the budget announcement and ED:

- If an ESS offer does not require payment from employees (and contractors) to participate, the ESS offer will qualify for regulatory relief from disclosure and other related requirements, and no filings need to be made
- Regulatory relief also streamlined where an ESS offer requires payment from participants, provided certain disclosure and filing requirements are met. For unlisted companies, the ESS offer must also comply with a monetary cap of \$30,000 per year, plus 70% of any dividends and 70% of any cash bonuses received during the year. This monetary cap can be accrued over five years, up to a maximum of \$150,000, with no limit applying if participants can immediately take advantage of a planned sale or listing of the company to sell their interests at a profit

Legislation has already been enacted to remove the cessation of employment taxing point with effect from 1 July 2022, applying to all deferred tax ESS grants where the taxing point occurs on or after 1 July 2022.

## **PERSONAL TAXATION**

### **Personal Income Tax Changes**

#### *Cost of living tax offset*

The Government will increase the low and middle income tax offset (LMITO) by a "cost of living tax offset" of \$420 for the 2021-22 income year. All LMITO recipients will benefit from the full \$420 increase (up to tax payable). Taxpayers with taxable income:

- up to \$37,000 will have their tax reduced by up to \$675
- more than \$37,000 will see offset increase by 7.5c per dollar (maximum \$1,500 for incomes \$48,000 - \$90,000)
- over \$90,000 the offset will reduce by 3 cents per dollar in excess, phasing out at a \$420 tax reduction at \$126,000.

The LMITO, which is due to be removed at the end of the 2021/22 income year, has not been extended.

The Low Income Tax Offset (LITO) is unchanged for 2022-23 (maximum \$700).

#### *Cost of living payment*

In addition to increasing the LMITO, the Government will provide a one-off \$250 tax-free payment in April 2022 to certain Australian resident age pension, social security, veteran and other income support recipients and eligible concession card holders. There will be one payment per recipient regardless whether the person qualifies to receive the payment through meeting multiple eligibility criteria.

### **No new personal tax bracket adjustments**

The personal income tax brackets remain unchanged for the 2022-23 income year. The legislated Stage 3 of the 2019-20 Budget personal income tax relief plan changes commence from the 2024-25 income year.

| Resident Rate* (%) | 2022-23 to 2023-24 (\$) | 2024-25 onwards (\$) |
|--------------------|-------------------------|----------------------|
| 0                  | 0 - 18,200              | 0 - 18,200           |
| 19                 | 18,201 - 45,000         | 18,201 - 45,000      |
| 30                 | -                       | 45,001 - 200,000     |
| 32.5               | 45,001 - 120,000        | -                    |
| 37                 | 120,001 - 180,000       | -                    |
| 45                 | 180,001+                | 200,001+             |

\*Rates do not include Medicare levy of 2%

### **Medicare levy threshold increases:**

The Medicare levy thresholds will also be adjusted from the 2022-23 income year, to take account of recent CPI movements.

## **SUPERANNUATION**

### **Extension of Temporary Reduction in Superannuation Minimum Drawdown Rates**

The Government has extended the existing 50% reduction in minimum annual pension withdrawal requirements for the year ended 30 June 2023. The minimum amount is calculated by multiplying your member balance as at 1 July by the rate below:

| Age on 1 July | Standard minimum drawdown rate | Reduced minimum drawdown rate (FY2022 and FY2023) |
|---------------|--------------------------------|---|
| Less than 65  | 4                              | 2   |
| 65-74         | 5                              | 2.5   |
| 75-79         | 6                              | 3   |
| 80-84         | 7                              | 3.5   |
| 85-89         | 11                             | 5.5   |
| 96 or more    | 14                             | 7   |

## **TAX ADMINISTRATION**

### **Extension of Funding for ATO Tax Avoidance Taskforce**

- The Government will provide approximately \$650m in additional funding to the ATO to extend the Tax Avoidance Taskforce on multinationals, large corporates and high wealth individuals by two years to 30 June 2025. It is estimated this measure will increase receipts by \$2.1 billion.

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