

Welcome to the SP Consulting Accountants newsletter.  
Please read this update and contact SP Consulting Accountants if you have any queries.

## Tax cuts pass Parliament

The Government announced various tax measures in the 2020 Budget on 6 October 2020, and it was able to secure passage of legislation containing some of the important measures very shortly afterwards, as summarised below.

### Tax relief for individuals

The Government brought forward 'Stage two' of their Personal Income Tax Plan by two years, so that, from 1 July 2020:

- the low income tax offset increased from \$445 to \$700;
- the top threshold of the 19% tax bracket increased from \$37,000 to \$45,000; and
- the top threshold of the 32.5% tax bracket increased from \$90,000 to \$120,000.

In addition, in 2020/21, low and middle-income earners will receive a one-off additional benefit of up to \$1,080 from the low and middle income tax offset.

### Tax relief for business

Businesses with a turnover of up to \$5 billion are now able to immediately deduct the full cost of eligible depreciable assets as long as they are first used or installed by 30 June 2022.

To complement this, the Government will also temporarily allow companies with a turnover of up to \$5 billion to offset tax losses against previous profits on which tax has been paid.

Also, businesses with an aggregated annual turnover between \$10 million and \$50 million will, for the first time, be able to access up to ten small business tax concessions.

Under the changes passed by the Parliament, the Government will also enhance previously announced reforms to invest an additional \$2 billion through the Research and Development Tax Incentive.



## Employers need to apply recent tax cuts as soon as possible

The ATO has now updated the tax withholding schedules to reflect the 2020/21 income year personal tax cuts — the updated schedules are available at [ato.gov.au/taxtables](https://ato.gov.au/taxtables).

The ATO has said that employers now need to make adjustments in their payroll processes and systems in order for the tax cuts to be reflected in employees' take-home pay.

Employers must make sure they are withholding the correct amount from salary or wages paid to employees for any pay runs processed in their system from **no later than 16 November** onwards.

Employees should be aware that any withholding on the old scales will be taken into account in their tax return.

## Deferrals of interest due to COVID-19

Many lenders have recently allowed borrowers with investment property loans to defer repayments for a period of time.

While repayments are being deferred, interest (and fees) will usually be added to the loan balance (i.e., the deferred interest will be 'capitalised').

However, it is important to recognise in such situations that, while repayments are not being made during the relevant period, borrowers continue to 'incur' the interest during that time.

Further, interest will continue to be calculated and will accrue on both the unpaid principal sum of the loan and the unpaid (i.e., capitalised) interest. The interest that accrues on the unpaid or capitalised interest is referred to as 'compound interest'.

Importantly, the ATO has previously acknowledged that, if the underlying, or ordinary, interest is deductible, then the compound interest will also be deductible.

Accordingly, interest expenses (including any compound interest) will generally be deductible to the extent the borrowed monies are used for income producing purposes (such as where the borrowed funds are used to purchase a rental property).

However, interest on a loan will not be deductible to the extent to which the borrowed funds are used for private purposes (e.g., to purchase a home, a private boat, or to pay for a holiday).

**Editor: Note that, despite the name, "penalty interest" is not always "in the nature of interest" and, in some cases, may not be deductible (e.g., due to the expense being capital in nature).**

## Simplified home office expense deduction claims due to COVID-19

Given that many Australians continue to work from home due to COVID-19, the ATO has updated its Practical Compliance Guideline which allows taxpayers working from home to claim a rate of 80 cents per hour, by keeping a record of the number of hours they have worked from home, rather than needing to calculate specific running expenses.

The application of the Guideline has been extended so that it now applies from 1 March 2020 until 31 December 2020.

## Companies holding meetings and signing documents electronically

The Government has made another determination extending the timeframe within which companies can hold meetings electronically and enabling electronic signatures to be used, to relieve companies from problems they face due to the Coronavirus situation.

This determination is intended to be in effect until (and will be repealed from) 22 March 2021, unless the Government determines otherwise.

**Editor: Note that the Government has also released exposure draft legislation to make these reforms (in respect of virtual meetings and electronic document execution) permanent.**

## COVID-19 and loss utilisation

The ATO understands the way some businesses operate has been impacted as a result of COVID-19.

Some of these impacts may have resulted in changes that affect whether they are able to utilise their carried-forward losses in the current or a future income year.

For companies to utilise their carried-forward losses in a particular year, they need to satisfy the continuity of ownership test or, if they fail that test, they need to satisfy the business continuity test ('BCT').

Whether a company can utilise carried-forward losses requires a consideration of its facts and circumstances.

Generally, a company that has completely closed its business with no intention to resume will **fail** the BCT. However, a company that has temporarily closed its business may still be able to satisfy the BCT.

Importantly, the mere receipt of JobKeeper payments will **not** cause a company to fail the BCT.

## Employees on JobKeeper can satisfy the 'work test'

The Australian Prudential Regulation Authority ('APRA') has confirmed that, where an employer is receiving the JobKeeper wage subsidy for an individual, superannuation funds should consider the individual to be 'gainfully employed' for the purpose of the 'work test', even if that individual has been fully stood down and is not actually performing work.

As such, superannuation funds can assume that all members in receipt of the JobKeeper subsidy satisfy the 'work test' when determining whether they can make **voluntary superannuation contributions**.