Tax changes:

Retaining the Low and Middle Income Tax Offset for the 2021–22 income year

The Low and Middle Income Tax Offset (LMITO) was due to be removed at the end of the current financial year. However, the Government has announced it will retain LMITO for the 2021–22 income year. The LMITO provides a reduction in tax of up to $1,080, as follows:

2021–22 Taxable income	Low and Middle Income Tax Offset
$37,000 or less	$255
Between $37,001 and $48,000	$255 plus 7.5 cents for every dollar above #37,000 up to a maximum of $1,080
Between $48,001 and $90,000	$1,080
Between $90,001 and $126,000	$1,080 minus 3 cents for every dollar of the amount above $90,000

What this could mean for you

If you earn between $48,000 and $90,000 you were due to see an increase of $1,080 in income tax for the 2021–22 income year. With the extension of the LMITO, that will no longer happen, effectively giving you a tax cut. Other people with a taxable income of between the effective tax-free threshold and $126,000 will receive a smaller tax cut.

Modernising the individual tax residency rules

The rules relating to individual tax residency are complicated and the Board of Taxation has recommended they be replaced with a new, modernised framework. A new 'primary test' will deem anyone who is physically present in Australia for 183 days or more in any income year to be an Australian tax resident. Individuals who do not meet the primary test will be subject to secondary tests that depend on a combination of physical presence and measurable objective criteria.

What this could mean for you

The modernised rules will provide certainty about whether someone is a resident for tax purposes and therefore simplify their tax arrangements.

Extending temporary loss carry-back

Ordinarily, companies are required to carry losses forward to offset profits in future years.

The Government has announced that it will extend the temporary loss carry-back measure a further 12 months to allow companies with aggregated annual turnover of less than $5 billion to carry back tax losses from 2019–20, 2020–21, 2021–22 or 2022–23 income years to offset previously taxed profits in the 2018–19 or later income years.

What this could mean for you

If you are an eligible business owner, the temporary carry-back measure will allow you to access losses earlier than before. You may also be able to generate a tax refund to provide a cash flow boost for your corporate business.

Temporary full expensing

Businesses with aggregated annual turnover within the relevant threshold will be able to deduct the full cost of eligible capital assets acquired from 7:30pm AEDT on 6 October 2020 (Budget night) and first used or installed by 30 June 2023 (extended from 30 June 2022 previously).

- Full expensing in the year of first use will apply to new depreciable assets and the cost of improvements to existing eligible assets for businesses with aggregated annual turnover of less than $5 billion.
- Full expensing also applies to second-hand assets for small and medium sized businesses with aggregated annual turnover of less than $50 million.

What this could mean for you

Business owners can fully deduct the business portion of assets first used or installed for an extra 12 months, until 30 June 2023.

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