TapIn Flash

For adviser use only **2020/13**

7 October 2020

2020-21 Federal Budget – Adviser Briefing

Last night's Federal Budget contained relatively few proposals that will impact personal financial planning advice.

The commentary in this document is based on TapIn's initial observations and interpretation of the proposals based on the limited details provided in the Budget papers. Importantly, these proposals require passage of legislation before they are implemented.

TapIn will continue to monitor these proposals and issue further communications as more details emerge.

Superannuation

Superannuation reforms

Proposed effective date: 1 July 2021

The Government has announced a number of superannuation measures designed to reduce the number of duplicate accounts held by employees as a result of changes in employment, and to prevent new members joining underperforming funds. These proposals include:

- The Australian Taxation Office (ATO) will develop systems so that new employees will be able to select a superannuation product from a table of MySuper products through a "YourSuper" portal.

  It is envisaged that the "YourSuper" tool will:

  1. Provide a table of simple super products (MySuper) ranked by fees and investment returns.
  2. Link individuals to super fund websites where they can choose a MySuper product.
  3. Show individuals their current super accounts and prompt them to consider consolidating accounts where they have more than one.

- An existing superannuation account will be 'stapled' to a member to avoid the creation of a new account when that person changes their employment.

  That is, where an employee does not nominate an account at the time they start a new job, employers will pay their superannuation contributions into the individual employee's existing fund – with details to be made available to employers via the ATO website.

  Where an employee does not have an existing superannuation account, and does not make a decision regarding a fund, the employer will pay the employee's superannuation into the employer's nominated default superannuation fund.

- Australian Prudential Regulation Authority (APRA) will conduct benchmarking tests on the net investment performance of MySuper products, with products that have underperformed over two consecutive annual tests prohibited from receiving new members until a further annual test shows they are no longer underperforming.

Non-MySuper accumulation products will be added to the benchmarking process from 1 July 2022.

- Transparency and accountability of superannuation funds will be improved by strengthening obligations on superannuation trustees to ensure their actions are consistent with members' retirement savings being maximised.

Other superannuation measures

Proposed effective date: Various

There was little movement on a number of previously announced superannuation measures:

- There was no mention of the proposed change to increase the age for non-concessional contribution (NCC) bring-forward purposes to age 67. The bill to enact this previously announced measure is still currently before parliament.
- There was no change to the COVID-19 temporary early release of super measure. Eligible Australian and New Zealand citizens and permanent residents continue to be allowed just one withdrawal opportunity of up to $10,000 from 1 July 2020 until 31 December 2020.
- The Government restated the deferred start date for a number of previously announced SMSF measures:
  - Increasing the maximum number allowed members in an SMSF (or Small APRA funds) from 4 to 6 – start date deferred to the date of Royal Assent of the enabling legislation. This bill has been referred to the Senate Economics Legislation Committee, due to report on 4 November 2020.
  - Changes to the calculation of exempt current pension income have also been deferred from 1 July 2020 to 1 July 2021.

Taxation – General

Personal income tax cuts brought forward

Proposed effective date: 1 July 2020

The Government's multi-year personal income tax plan outlined in Table 1 is already law, together with the yearly Low and Middle Income Tax Offset (LMITO) and Low Income Tax Offset (LITO) amounts.

Table 1: Existing / already legislated

Marginal tax rate* (%)	Stage One Existing thresholds - income range ($)	Stage Two Thresholds - income range from 1 July 2022 ($)	Stage Three Thresholds - MTR (%) and income range from 1 July 2024 ($)	
0	0 – 18,200	0 – 18,200	0%	0 – 18,200
19	18,201 – 37,000	18,201 – **45,000**	19%	18,201 – 45,000
32.5	37,001 – 90,000	**45,001 – 120,000**	**30%**	45,001 – **200,000**
37	90,001 – 180,000	**120,001** – 180,000		–
45	> 180,000	> 180,000	45%	**> 200,000**
LMITO	**Up to 1,080**	–		–
LITO	Up to 445	Up to **700**	Up to 700	

(*excluding 2 per cent Medicare Levy)

The Government now proposes to bring forward, and retrospectively start **from 1 July 2020**, the "Stage two" threshold and income ranges that were due to commence from 1 July 2022.

The Government also proposes to retain the LMITO, but only until 30 June 2021. The increase in the LITO from $445 to $700 is also proposed to be brought forward to 2020-21.

Table 2 (below) summarises the new proposed personal tax rates, thresholds and offsets:

Table 2: Proposed in 2020-21 Budget

Marginal tax rate* (%)	Thresholds - income range 2020-21 ($)	Thresholds - income range from 2021-22 to 2023-24 ($)	Thresholds - MTR (%) and income range from 1 July 2024 ($)	
0	0 – 18,200	0 – 18,200	0%	0 – 18,200
19	18,201 – **45,000**	18,201 – 45,000	19%	18,201 – 45,000
32.5	**45,001 – 120,000**	45,001 – 120,000	**30%**	45,001 – **200,000**
37	**120,001** – 180,000	120,001 – 180,000		–
45	> 180,000	> 180,000	45%	**> 200,000**
LMITO	**Up to 1,080**	**–**		–
LITO	Up to **700**	Up to 700		Up to 700

(*excluding 2 per cent Medicare Levy)

More details:

- The Stage Three tax cuts, already legislated to commence from 1 July 2024, remain unchanged – as shown in Table 1 above.
- LMITO (only available until 30 June 2021) is available in addition to the LITO. The tax offset savings are received as a refund following lodgement and assessment of the person's tax return.
- Neither LITO nor LMITO are refundable tax offsets, so they can reduce tax liability to nil but not reduce liability for Medicare levy.

LITO:

- From 1 July 2020, LITO is proposed to increase to $700. The increased LITO will be reduced at a rate of 5 cents per $1 for income between $37,500 and $45,000 and 1.5 cents per $1 for income between $45,000 and $66,667.

LMITO:

- The benefit for those earning up to $37,000 is $255.
- Between $37,000 and $48,000, the offset increases at the rate of 7.5 cents per $1 above $37,000 to a maximum offset of $1,080.
- Those earning between $48,000 and $90,000 are eligible for the maximum LMITO benefit of $1,080.
- For income above $90,000, the offset phases out at a rate of 3.0 cents per $1 and is not available when taxable income exceeds $126,000.

Effective tax-free threshold (2020-21):

Effective tax-free threshold 2020-21 (proposed)	
LITO and LMITO (Individuals below Age Pension age)	$23,226*

(*some Medicare levy may be payable)

Removing Capital Gains Tax (CGT) for granny flat arrangements

Proposed effective date: 1 July 2021

The Government is proposing to provide a targeted CGT exemption for granny flat arrangements where there is a formal written agreement in place.

The social security granny flat rules allow people (typically older social security recipients) to transfer assets (typically cash or the recipients' principal home) to another person (typically the recipients' adult children) in exchange for a right of occupancy for life in a residential property, without potentially being subject to the usual deprivation rules.

For example, a parent(s) may transfer the title to their home to an adult child in exchange for a lifetime right to reside in this home. In this scenario, depending on the facts of the case, typically:

- There is no deprivation from a social security perspective, and
- The parent(s) continue to be treated as homeowners, with the value of the asset transferred exempted from social security assessment.

Importantly, social security rules do not require a formal agreement to assess a qualifying arrangement under the granny flat provisions.

The CGT rules relating to these granny flat arrangements are complex. As a result, to avoid the risk of incurring a CGT liability, many arrangements are currently undocumented. Unfortunately, this can leave older or disabled people vulnerable once they have transferred the asset to another person.

To address this concern, the Government is proposing a CGT exemption when a granny flat arrangement is created, varied or terminated under a formal agreement providing accommodation for older Australians or people with disabilities.

This proposed change will only apply to agreements that are entered into because of family relationships or other personal ties and will not apply to commercial rental arrangements.

Observation:

If legislated, this measure will remove one of the complexities associated with establishing a granny flat interest. Apart from the social security and CGT aspects, there are other matters that should be considered before establishing a granny flat interest. Consideration should also be given to the potential costs, tax, estate planning and future residential aged care issues.

Taxation – Business

Temporary full expensing of capital assets

Proposed effective date: 7:30pm, 6 October 2020

The Government is proposing that businesses with aggregated annual turnover of less than $5 billion will be allowed to deduct the full cost of eligible capital assets acquired from Budget night and first used or installed by 30 June 2022.

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

Businesses with aggregated annual turnover between $50 million and $500 million can still deduct the full cost of eligible second-hand assets costing less than $150,000 that are purchased by 31 December 2020 under the enhanced instant asset write-off.

Businesses that hold assets eligible for the enhanced $150,000 instant asset write-off will have an extra six months, until 30 June 2021, to first use or install those assets.

Temporary loss carry-back

The Government is proposing to allow eligible companies to carry back tax losses from the 2019-20, 2020-21 or 2021-22 income years to offset previously taxed profits in 2018-19 or later income years.

Corporate tax entities with an aggregated turnover of less than $5 billion can apply tax losses against taxed profits in a previous year, generating a refundable tax offset in the year in which the loss is made. The tax refund will be available on election by eligible businesses when they lodge their 2020-21 and 2021-22 tax returns.

Currently, companies are required to carry losses forward to offset profits in future years. Companies that do not elect to carry back losses under this measure can still carry losses forward as normal.

Expanding access to some small business tax concessions

Proposed effective date: Various

The Government is proposing to expand access to some small business tax concessions by increasing the small business entity turnover threshold for these concessions from $10 million to $50 million.

Businesses with an aggregated annual turnover of $10 million or more but less than $50 million will, for the first time, have access to up to ten further small business tax concessions in three phases:

- From 1 July 2020, eligible businesses will be able to immediately deduct certain start-up expenses and certain prepaid expenditure.
- From 1 April 2021, eligible businesses will be exempt from the 47 per cent fringe benefits tax on car parking and multiple work-related portable electronic devices (such as phones or laptops) provided to employees.
- From 1 July 2021, eligible businesses will be able to access the simplified trading stock rules, remit pay as you go (PAYG) instalments based on an adjusted notional tax basis, and settle excise duty and excise-equivalent customs duty monthly on eligible goods under the small business entity concession. Eligible businesses will also have a two-year amendment period apply to income tax assessments for income years starting from 1 July 2021, excluding entities that have significant international tax dealings or particularly complex affairs.

In addition, from 1 July 2021, the ATO's power to create a simplified accounting method determination for GST purposes will be expanded to apply to businesses below the $50 million aggregated annual turnover threshold.

Observation:

For small business CGT concessions the under $2 million aggregated turnover test remains, or alternatively eligibility can be based on the $6 million maximum net asset value test.

Other related measures

Proposed effective date: Various

The Government has announced a number of other measures intended to accelerate employment growth for Australians, including the following:

- Businesses who take on a new apprentice from 5 October 2020 will be eligible for a 50 per cent wage subsidy, up to certain limits.
- Organisations who take on new employees may qualify for the new JobMaker Hiring Credit. Depending on the age of the new employee, a weekly credit of $200 or $100 will be available to eligible employers over 12 months from 7 October 2020 for each additional new job they create for an eligible employee.
- The Government is proposing to introduce an exemption from the 47 per cent fringe benefits tax (FBT) for employers providing retraining and reskilling benefits to redundant, or soon to be redundant, employees where the benefits may not be related to their current employment.

Social Security, Families and Aged Care

Further economic support payments for income support recipients

Proposed effective date: From November 2020 (first payment) and early 2021 (second payment)

The Government will provide two economic support payments of $250 each to eligible income support recipients and concession card holders. The first payment will be made available from November/December 2020 and the second from early 2021.

Recipients of the following social security payments or concession cards are eligible:

- Age Pension
- Disability Support Pension
- Carer Payment
- Carer Allowance (not in receipt of a primary income support payment)
- Commonwealth Seniors Health Card
- Pensioner Concession Card (not in receipt of a primary income support payment)
- Family Tax Benefit, including Double Orphan Pension
- eligible Department of Veterans' Affairs (DVA) payment recipients and concession card holders.

The payments are exempt from taxation and will not count as income for the purposes of any income support payment.

Observation:

These payments build on the two previous $750 Economic Support Payments, paid earlier in 2020, in response to the COVID-19 pandemic.

Temporarily relaxing the Paid Parental Leave work test

Proposed effective date: 22 March 2020

One of the eligibility criteria for Paid Parental Leave is a work test. Under the current rules, to meet the work test, the parent must have worked in 10 of the last 13 months preceding the birth or adoption of the child.

The Government is proposing to relax the Paid Parental Leave work test for births and adoptions that occur between 22 March 2020 and 31 March 2021 to allow parents to qualify for the payment if they have worked in 10 of the last 20 months preceding the birth or adoption of a child.

Observation:

This concessional work test arrangement for Paid Parental Leave will, for a limited time, support new parents whose employment was interrupted by the COVID-19 pandemic.

Release of additional home care packages

Proposed effective date: 2020-21 onwards

The Government will further support older Australians accessing aged care by providing additional home care packages.

An additional 23,000 home care packages will be released over four years from 2020-21 across all package levels.

Housing affordability

Extension of first home loan deposit scheme

Proposed effective date: 6 October 2020

The Government will allow an additional 10,000 first home buyers to obtain a loan to build a new home or purchase a newly built home with a deposit of as little as 5 per cent under the existing First Home Loan Deposit Scheme.

The scheme allows first home buyers to build or purchase a newly built home with a low deposit through participating lenders where available, replacing the need for commercial Mortgage Lenders' Insurance.

Application for the additional guarantees will be available until 30 June 2021.

Observation:

Eligible first home buyers may also be able to take advantage of the Government's First Home Super Saver Scheme which allows them to use the concessionally taxed superannuation system to save their first home deposit.

In addition, under the Government's HomeBuilder Scheme, existing owner-occupiers including first home buyers may be eligible for a grant of $25,000 to build or substantially renovate an existing home. First home buyers may also be eligible for state and territory grants and concessions.

These measures are designed to promote home ownership and support employment in the construction industry.