TapIn Flash

For adviser use only **2021/04**

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2021-22 Federal Budget – Adviser Briefing

Last night's Federal Budget contained a number of 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 and fact sheets.

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

Repealing the work test for non-concessional and salary sacrificed contributions

Proposed effective date: 1 July 2022

Currently, individuals aged 67 to 74 years can only make voluntary contributions (both concessional and non-concessional) to their superannuation, or receive contributions from their spouse, if they meet the 'work test', (i.e. have worked at least 40 hours over a 30 consecutive day period in the relevant financial year) or are eligible to contribute under the recent retiree work test exemption.

From 1 July 2022, the Government will allow individuals aged 67 to 74 (inclusive) to make or receive ***non-concessional superannuation contributions or salary sacrificed contributions*** without meeting the work test, subject to existing contribution caps. These individuals will also be able to access the non-concessional bring forward arrangement, subject to meeting the relevant eligibility criteria.

The work test (or recent retiree work test exemption) will still have to be met by individuals aged 67 to 74 years wanting to make personal deductible contributions.

Observation:

Removing the requirement to meet the work test when making non-concessional or salary sacrifice contributions will simplify the rules governing superannuation contributions and will increase flexibility for older Australians to save for their retirement through superannuation.

Extending access to downsizer contributions

Proposed effective date: 1 July 2022

Currently, downsizer contributions to super can only be made by individuals age 65 or older. The Government is proposing to lower this age from 65 to age 60.

All other eligibility criteria for downsizer contributions remains unchanged.

Observation:

It should be remembered that downsizer contributions do not count toward an individual's non-concessional contribution (NCC) cap. Individuals under age 65 may also be able to trigger a 3-year bring-forward NCC cap subject to their Total Superannuation Balance. This could potentially result in super contributions of up to $630,000 being made by an individual when combining their NCC cap and a downsizer contribution (where eligible to do so).

Temporary opportunity to exit from certain legacy retirement products

Proposed effective date: 1 July following the passage of legislation

The Government will provide a temporary, two-year opportunity for individuals to transition from existing legacy retirement products to newer, more flexible products.

Legacy products include market-linked (Term Allocated Pensions – TAPs), life-expectancy and lifetime pension and annuity products commenced with any provider (including SMSFs), but exclude Flexi-pension products or a lifetime product in a large APRA-regulated or public sector defined benefit scheme.

Currently, these legacy products can only be converted into another like product. Limits apply to the allocation of any associated reserves to avoid counting towards an individual's contribution caps.

Retirees will be able to exit these legacy products by fully commuting the product and transferring the underlying capital, including any reserves, back into a superannuation fund account in the accumulation phase. From there, they can decide to either commence a new retirement product, take a lump sum benefit, or retain the funds in that account.

The two-year period provided for the commutation will have effect from the first financial year after the passage of the enabling legislation.

It will not be compulsory for individuals to move out of legacy retirement products.

The existing social security treatment that applies to the legacy product will not transition over to the new product commenced with commuted funds. Further, exiting a product will not cause re-assessment of the social security treatment of the product for the period before conversion.

Existing rules for income streams will continue to apply so that individuals starting a new retirement product will be limited by the transfer balance cap rules. The existing transfer balance cap valuation methods for the legacy product, including on commencement and commutation, continue to apply.

Any commuted reserve amounts will not be counted towards an individual's concessional contribution cap but will be taxed as an assessable contribution of the fund.

Superannuation Guarantee (SG) - Abolishing the $450 per month income threshold

Proposed effective date: 1 July 2022

The current $450 per month minimum income threshold before SG contributions become payable will be removed.

Observation:

This means employees at all income levels will receive SG contributions.

Note: The SG rate is currently legislated to increase to 10% from 1 July 2021 and incrementally to 12% in following years. This remains unchanged.

Relaxing residency requirements for SMSFs

Proposed effective date: 1 July 2022

The Government is proposing to relax the residency requirements for self-managed superannuation funds (SMSFs) and small APRA-regulated funds (SAFs) by:

- Extending the central management and control test safe harbour from two to five years for SMSFs, and
- Removing the active member test for both SMSFs and SAFs.

Observation:

These measures would provide SMSF and SAF members with greater flexibility to retain, and continue to contribute to, their existing fund while being temporarily overseas.

Early release of super for victims of family/domestic violence

The Government has indicated that it will not proceed with the proposal to extend early release of superannuation to victims of family and domestic violence.

Taxation – Personal

Extending the Low and Middle Income Tax Offset (LMITO)

Proposed effective date: 1 July 2021

The Low and Middle Income Tax Offset (LMITO), which was due to end on 30 June 2021 will now be retained for one more year in 2021-22.

It is worth up to $1,080 for individuals or $2,160 for dual income couples. Consistent with current arrangements, the LMITO will be received on assessment after individuals lodge their tax returns for the 2021-22 income year.

The table below summarises the personal tax scales to apply in 2021-22 onwards including both the Low Income Tax Offset (LITO) and LMITO.

Personal tax rates, thresholds and offsets

Marginal tax rate* (%)	Thresholds - income range 2021-22 ($)	Thresholds - income range from 2022-23 to 2023-24 ($)	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

Additional notes

LMITO (which is now to apply until 30 June 2022) is available in addition to the LITO.

Neither LITO nor LMITO are refundable tax offsets. So, while they can reduce tax liability to nil, they cannot reduce liability for Medicare levy.

LITO:

The 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 cents per $1 and is not available when taxable income exceeds $126,000.

Increasing the Medicare Levy low-income thresholds

Proposed effective date: From 2020-21 financial year

The Medicare levy low-income thresholds for singles, families, and seniors and pensioners is to be increased effective from 1 July 2020 so that low-income taxpayers generally continue to be exempt from paying the Medicare levy.

The threshold for:

- Singles, will be increased from $22,801 to $23,226,
- Families, will be increased from $38,474 to $39,167,
- Single seniors and pensioners, will be increased from $36,056 to $36,705, and
- Families (seniors and pensioners) will be increased from $50,191 to $51,094.

For each dependent child or student, the family income thresholds increase by a further $3,597.

Amending the definition of Australian tax residency for individuals

Proposed effective date: 1 July following passage of legislation

The existing rules that are used to determine whether an individual is an Australian tax resident are to be replaced with a simple test whereby a person who is physically present in Australia for 183 days or more in any income year will be an Australian tax resident.

Individuals who do not meet this test will be subject to secondary tests that depend on a combination of physical presence and measurable, objective criteria.

Employee Share Schemes (ESS) - Removing employment cessation as a taxing point of deferred schemes

Proposed effective date: For new ESSs commenced in the year following passage of legislation

Currently under a qualifying tax deferred ESS the taxing point is the earliest of:

- When the employee ceases employment with the employer,
- When there is no risk of forfeiture or restrictions on disposal of the shares, or
- When the employee exercises options and there is no risk of forfeiture or restrictions on disposal of the resulting shares, and
- A maximum deferral period of 15 years.

The proposed change will remove cessation of employment as a deferred taxing point.

The purpose of this amendment is to remove the possibility that a tax liability may arise at a point in time before the employee actually has access to the shares under the terms of the ESS.

Extending tax deductions for self-education expenses

Proposed effective date: 1 July following passage of legislation

Under the current rules, taxpayers cannot claim a tax deduction for the first $250 of expenses for prescribed courses of education. This threshold is proposed to be removed.

Observation:

This will simplify record keeping and compliance.

Taxation – Small business

Extending the temporary full expensing of capital assets measure

Temporary full expensing will be extended for 12 months until 30 June 2023 to allow eligible businesses with aggregated annual turnover or total income of less than $5 billion to deduct the full cost of eligible depreciable assets of any value, acquired from 7:30pm on 6 October 2020 and first used or installed ready for use by 30 June 2023.

All other elements of temporary full expensing will remain unchanged, including the alternative eligibility test based on total income, which will continue to be available to businesses.

From 1 July 2023, normal depreciation arrangements will apply.

Observation:

The 12-month extension will provide eligible businesses with additional time to access the incentive. This will encourage businesses to make further investments, including on projects requiring longer planning times.

Extending the temporary loss carry-back measure

Temporary loss carry-back is to be extended to allow eligible companies to carry back (utilise) tax losses from the 2022-23 income year to offset previously taxed profits as far back as the 2018-19 income year when they lodge their 2022-23 tax return.

Loss carry-back provides eligible companies earlier access to the tax value of losses generated by full expensing deductions.

Companies with aggregated turnover of less than $5 billion are eligible for temporary loss carry-back.

Housing affordability

Extending the First Home Super Saver Scheme (FHSSS)

Proposed effective date: 1 July 2022

The Government has announced that the cap on withdrawals of voluntary contributions from the FHSSS will be increased to a maximum of $50,000 plus notional earnings per eligible person. Withdrawals are currently capped at a maximum of $30,000 plus notional earnings per person.

The FHSSS is a scheme aimed at boosting the deposit savings of first home buyers by allowing them to use the tax advantaged superannuation system, in addition to traditional non-super vehicles such as bank savings accounts.

The FHSSS allows first home buyers to withdraw voluntary contributions (both concessional and non-concessional) plus an amount of notional earnings towards their first home purchase. The withdrawal cap of $15,000 voluntary contributions per financial year remains.

Some other technical amendments in relation to amending instructions for withdrawn amounts will also be made.

Extending the First Home Loan Deposit Scheme (FHLDS)

Proposed effective date: 1 July 2021

The Government has announced that an additional 10,000 places will be made available in the FHLDS (New Homes). The new places will be available in the 2021-22 year. The extension of the FHLDS will apply to first home buyers who buy a newly constructed home or who build a new home.

The FHLDS allows first home buyers/builders to borrow more than the standard 80% of the property's value with only a 5% deposit, with the balance (15%) being underwritten by a government agency in the event of loan default and shortfall. The FHLDS allows eligible first home buyers to borrow more without paying the premium for Lender's Mortgage Insurance which would otherwise apply in such situations.

Application for a place in the scheme is made by participating lenders on behalf of the borrowers when the borrowers make their loan application.

Further information on the FHLDS can be found on the government website.

Other housing related proposals

HomeBuilder program – the Government will extend the construction commencement requirement under this existing program from the existing 6 to 18 months.

Family Home Guarantee scheme – the Government will establish a program similar to the FHLDS above to allow eligible single parents with dependants to enter or re-enter the housing market with a deposit as little as 2%. The scheme will have 10,000 places and be available from 2021-22.

Families, Social Security and Aged Care

Increasing the Child Care Subsidy (CCS)

Proposed effective date: 1 July 2022

The CCS is a percentage-based subsidy based on family income that assists with the cost of child care.

The Government proposes to provide a higher level of CCS to families with more than one child under age 6 in child care. The level of subsidy will increase by an extra 30% to a maximum subsidy of 95% for the second and subsequent children.

For example, currently a family may receive a 50% subsidy on child care costs for each child if family income is between $174,390 and $253,680. Under the proposal, the family would receive a CCS of 50% of costs for their first child and 80% for their second and subsequent children.

The annual CCS cap of $10,560 for families earning between $189,390 and $353,660 will also be removed.

Observation:

These measures will help ease the cost of child care and remove the disincentives for parents, particularly those of larger families, to return to the workforce or to increase their work hours.

Improving the Pension Loan Schemes (PLS)

Proposed effective date: 1 July 2022.

The PLS enables senior Australians to voluntarily receive fortnightly loan payments from Centrelink to supplement their retirement income. Participants of the scheme:

- must own real estate in Australia which is used as security for the loan, and
- can choose the amount of the loan, provided that the combined Age Pension payment and loan amount does not exceed 150% of the maximum pension payment rate.

The Government is increasing the flexibility and attractiveness of the PLS by making the following changes:

- Introducing a 'No Negative Equity Guarantee' for PLS loans to ensure that borrowers (or their estate) will never owe more than the value of their equity in the property the loan is secured against, and
- Providing the option to access up to two lump sum loan advances in any 12 month period. The total of these can be up to 50% of the maximum annual rate of Age Pension.

Observation:

The total amount of pension plus loan available will still be capped at 150% of the maximum rate of Age Pension. This means any advances taken will reduce the maximum fortnightly loan amount a person can take over the rest of the year.

Based on current Age Pension rates, a single person could receive lump sum payments of up to approximately $12,385 per year, and couples combined could receive about $18,670.

Supporting changes to aged care

Proposed effective date: Immediate and ongoing

In response to the recent Aged Care Royal Commission, the Government will deliver a $17.7 billion package of support to the Aged Care sector. Funding will be allocated over five years with a focus on home care as well as the sustainability, quality and safety of residential care.

Two immediate impacts will be the release of 80,000 new home care packages over two years from 2021-22 and a commitment by the Government to improve daily living conditions in residential care by contributing $10 per day for each resident on top of the basic daily fee.

Observation:

There has been no mention of changes to means testing or the out of pocket costs paid by clients for residential or home care. A new Aged Care Act is proposed for 2023 which could provide more clarity in this area.