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2021 Federal Budget Summary

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Introduction

The following paper provides a summary of information announced in the 2021-22 Federal Budget which may be of interest to financial advisers and relevant to their clients. This paper has been prepared for use by advisers, and should not be provided to your clients.

Please note that many of these announcements are yet to be legislated, and care should be taken before implementing a financial strategy based on Budget announcements alone.

Taxation

Tax residency rules

The Government plans to replace the current individual tax residency rules with a simple primary test - 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 the primary test will be subject to secondary tests that depend on a combination of physical presence and measurable, objective criteria.

The measure will have effect from the first income year after the date of Royal Assent of the enabling legislation.

Increasing the Medicare levy low-income thresholds

From 1 July 2020, the threshold for singles will be increased from $22,801 to $23,226.

The family threshold will be increased from $38,474 to $39,167.

For single seniors and pensioners, the threshold will be increased from $36,056 to $36,705.

The family threshold for 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 instead of the previous amount of $3,533.

Low and Middle Income Tax Offset

The Low and Middle Income Tax Offset (LMITO) will be retained for the 2021-22 income year.

The LMITO provides a reduction in tax of up to $1,080.

Taxpayers with a taxable income of $37,000 or less will benefit by up to $255 in reduced tax.

Between taxable incomes of $37,000 and $48,000, the value of the offset increases at a rate of 7.5 cents per dollar to the maximum offset of $1,080.

Taxpayers with taxable incomes between $48,000 and $90,000 are eligible for the maximum offset of $1,080.

For taxable incomes of $90,000 to $126,000, the offset phases out at a rate of 3 cents per dollar.

The LMITO will be received on assessment after individuals lodge their tax returns for the 2021-22 income year.

Employee Share Schemes

The cessation of employment taxing point will be removed for the tax-deferred Employee Share Schemes (ESS) that are available for all companies.

Currently, under a tax deferred ESS, where certain criteria are met employees may defer tax until a later tax year (the deferred taxing point).

The deferred taxing point is the earliest of:

- Cessation of employment (proposed to be removed)
- In the case of shares, when there is no risk of forfeiture and no restrictions on disposal
- In the case of options, when the employee exercises the option and there is no risk of forfeiting the resulting share and no restriction on disposal
- The maximum period of deferral of 15 years

This change will result in tax being deferred until the earliest of the remaining taxing points.

Self-education expense — claiming deductions

The current exclusion making the first $250 of deductions for prescribed courses of education not deductible, will be removed from the first income year after the date of Royal Assent of the enabling legislation.

Superannuation

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First Home Super Saver Scheme

The maximum releasable amount of voluntary concessional and non-concessional contributions under the First Home Super Saver Scheme (FHSSS) will increase from $30,000 to $50,000.

Eligible contributions made from 1 July 2017 up to the existing limit of $15,000 per year will count towards the total amount able to be released. This will apply from the start of the first financial year after Royal Assent of the enabling legislation, expected by 1 July 2022.

There will also be four technical changes:

- Increasing the discretion of the Commissioner to amend and revoke applications
- Individuals will be able to withdraw or amend their applications prior to them receiving a FHSSS amount, and allow those who withdraw to re-apply releases in the future
- Allowing the Commissioner to return any released FHSSS money to superannuation funds, provided that the money has not yet been released to the individual
- Clarifying that the money returned by the Commissioner to superannuation funds is treated as funds' non-assessable non-exempt income and does not count towards the individual's contribution caps.

These measures will apply retrospectively from 1 July 2018.

Downsizer contributions

The eligibility age to make downsizer contributions will be reduced from 65 to 60 years of age.

All other requirements remain unchanged.

The measure will have effect from the start of the first financial year after Royal Assent of the enabling legislation, expected to be prior to 1 July 2022.

Abolition of work test for certain contributions

Individuals aged 67 to 74 years (inclusive) will be able to make or receive non-concessional (including under the bring-forward rule) or salary sacrifice superannuation 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 eligibility criteria.

Individuals aged 67 to 74 years will still have to meet the work test to make personal deductible contributions.

The measure will have effect from the start of the first financial year after the date of Royal Assent of the enabling legislation expected to have occurred prior to 1 July 2022.

Superannuation Guarantee eligibility

The Government will remove the current $450 per month minimum income threshold, under which employees do not have to be paid the Superannuation Guarantee by their employer.

This measure is to have effect from the start of the first financial year after the date of Royal Assent of the enabling legislation, expected to have occurred prior to 1 July 2022.

Legacy retirement product conversions

Members will be provided with a temporary 2 year option to transition from legacy retirement products such as market linked (TAPS), life expectancy and lifetime pensions and annuity products to more flexible and contemporary retirement products such as account based pensions.

Participation in this option is not compulsory. Retirees with these products who choose to will be able to completely exit these 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 it can be used to commence a new retirement product, pay a lump sum benefit, or retain the funds in that account.

Any commuted reserves will not be counted towards an individual's concessional contribution cap and will not trigger excess contributions. It will however be taxed at 15% in the fund as an assessable contribution of the fund.

The existing social security treatment that applies to the legacy product will not transition over but exiting the product will not cause a Social Security debt to arise. Existing rules for income streams will continue to apply so transfer balance cap rules apply to the new income stream.

The existing transfer balance cap valuation methods for the legacy product, including on commencement and commutation, continue to apply.

The following products are covered under the proposed new rules i.e. can be commuted - market-linked (TAPS), life-expectancy and lifetime products which were first commenced prior to 20 September 2007 from any provider, including self-managed superannuation funds.

The following products are excluded from the proposed new rules i.e. cannot be commuted - flexi-pension products offered by any provider, and lifetime products offered by large APRA-regulated defined benefit schemes or public sector defined benefit schemes.

Further details from the Government should provide greater clarity as to how these rules specifically apply to both SMSF's and other funds.

The measure will have effect from the first financial year after the date of Royal Assent of the enabling legislation.

SMSF and small APRA funds — relaxing residency requirements

The central control and management test safe harbour period will be extended from two to five years for SMSFs, and the active member test will be removed for both fund types to allow SMSF and small APRA-regulated funds (SAFs) members to continue to contribute to their fund whilst overseas.

Effective from the start of the first financial year after the date of Royal Assent of the enabling legislation, which is expected to have occurred prior to 1 July 2022.

Social security

Child Care Subsidy

Commencing on 11 July 2022, assistance will be extended to families by reducing out of pocket costs and supporting parental choice by increasing the Child Care Subsidy (CCS) rate by 30 percentage points for the second child and subsequent children aged five years and under that are in care, up to a maximum CCS rate of 95% for these children.

From 1 July 2022, the CCS annual cap of $10,560 per child per year will be removed.

Aged care

As part of a multi-faceted response to the Aged Care Royal commission, the release of 80,000 additional home care packages over two years from 2021-22. This will bring the total number of home care packages to 275,598 by June 2023.

Funds will also be provided to ensure greater access to respite care services and payments to support carers.

Newly Arrived Resident's Waiting Period

From 1 January 2022, the existing system that applies different waiting periods to different welfare payments will be replaced by applying a consistent four-year Newly Arrived Resident's Waiting Period across most welfare payments.

Increased support for unemployed Australians

From 1 April 2021, the Government will increase the base rate of working-age payments by $50 per fortnight for JobSeeker Payment, Youth Allowance, Parenting Payment, Austudy, ABSTUDY Living Allowance, Partner Allowance, Widow Allowance, Special Benefit, Farm Household Allowance and for certain Education Allowance recipients under the Department of Veterans' Affairs Education Scheme

From 1 April 2021, increase the income-free area of certain working-age payments will be increased to $150 per fortnight. This applies to JobSeeker Payment, Youth Allowance (other), Parenting Payment Partnered, Widow Allowance and Partner Allowance

The temporary waiver of the Ordinary Waiting Period for certain payments will be extended for a further three months to 30 June 2021.

Pension Loans Scheme

The Government aims to improve the uptake of the Pension Loans Scheme by allowing participants to access up to two lump sum advances in any 12-month period, up to a total value of 50% of the maximum annual rate of the Age Pension.
A "No Negative Equity Guarantee" will be introduced so borrowers will not have to repay more than the market value of their property.

Job support and creation

Temporary full expensing extension

Temporary full expensing will be extended 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 AEDT on 6 October 2020 and first used or installed ready for use by 30 June 2023.

Temporary loss carry-back extension

The Government will extend the ability for 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.

Companies with aggregated turnover of less than $5 billion are eligible. The tax refund is limited by requiring that the amount carried back is not more than the earlier taxed profits and that the carry-back does not generate a franking account deficit. Companies that do not elect to carry back losses under this measure can still carry losses forward as normal.

Other announcements

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Family Home Guarantee

The Government announced the establishment of the Family Home Guarantee with 10,000 guarantees made available over four years to single parents with dependants. The Family Home Guarantee allows them to purchase a home sooner with a deposit of as little as 2%.

New Home Guarantee

The New Home Guarantee will be extended for a second year, providing an additional 10,000 places in 2021-22. First home buyers seeking to build a new home or purchase a newly built home will be able to do so with a deposit of as little as 5%.

Home Builder extended

The commencement requirement for the Home Builder program will be extended from six months to 18 months for all existing applicants. The extension will only apply to existing applicants who signed building contract up to 31 March 2021 and will provide an additional 12 months to commence construction from the date that the building contract was signed.

Contact Netwealth for more information about this or other Netwealth products

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