FEDERAL BUDGET 2021-22

Introduction

On 11 May 2021, the Government handed down the 2021-22 Federal Budget. Whilst this marked a return to the traditional timing of the budgetary processes, the content of the 2021-22 Budget continues to remind us that our economy and way of life has still not returned to full normality post the events of COVID-19.

Continuing to provide for a safer environment and incentives to increase spending by taxpayers to stimulate the economy remained a consistent measure and is in line with the Federal Budget handed down in October 2020. Whilst many measures had been announced prior to the formal delivery of the 2021-22 Federal Budget, there were a number of additional measures released that have the potential to impact on the wealth plans of a number of Australians. Many of these announcements could be regarded as a soft start to an election campaign by the Government, with expected commencement dates of 1 July 2022 – which is later than when the next Federal election will be held.

For many, the headline announcements may have centred on the extension of the low- and middle-income tax offset (worth up to $1,080) for another 12 months through to 30 June 2022, or the absence of any announcement of a change to the rate of super guarantee payments. However, there were also a number of other superannuation announcements that could have a significant (and positive) impact on the wealth plans of many Australians.

Beyond wealth, the Budget did also have a focus on health issues for Australians, with measures announced to improve access to mental health services which, for a number of people, has had a heightened focus since the onset of COVID-19. Additionally, a number of measures were focussed on women, with some aimed at addressing the retirement savings gap between males and females.

Below is an overview of the key measures announced in this year's Federal Budget:

(it is always important to remember that at this point, the Budget night announcements are only statements of intended change and are not yet law)

Personal tax changes

After the significant changes to personal taxation announced in the October 2020 Federal Budget, which largely took effect from 1 July 2020, it was no surprise to see no significant announcements on personal tax cuts in this year's Budget. The Government remains committed to its next stage of personal income tax reform that will take effect from 1 July 2024.

In the 2020-21 Federal Budget, the Government announced an extension of the low- and middle-income tax offset (LIMTO) for 12 months through to 30 June 2021. In this year's Federal Budget, the Government has further extended the availability of this tax offset for an additional 12 months. Providing a maximum benefit (or tax saving) of $1,080 per person for those on taxable incomes between $48,000 and $90,000 and some benefit either side, before cutting out at a taxable income of $126,000 or above, the benefit of LIMTO is only gained when you lodge your income tax return for the financial year.

The Government also announced changes to the taxation of certain employee share schemes. Under certain arrangements, the taxation of an employee share scheme can be deferred to a point in time after the initial grant of the relevant shares, with a range of events noted that caused the tax to be assessed. The Government is proposing to remove one of those taxing events, being cessation of employment, to remove any advantages that may have been obtained from terminating employment early. This has the benefit for employers of being able to offer these remuneration incentives and retain key staff for longer periods of time.

Business taxation

In last year's Budget, the Government announced that businesses with aggregated annual turnover of less than $5 billion 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 2022. This has now been extended a further 12 months to eligible capital assets first used or installed by 30 June 2023.

In addition, another measure announced last year, allowing companies with an aggregated turnover of less than $5 billion to apply tax losses against taxed profits in prior years will be extended a further 12 months. Under this arrangement, eligible companies will be able to carry back tax losses from the 2019/20, 2020/21, 2021/22 and now 2022/23 income years to offset previously taxed profits from the 2018/19 or later income years.

Superannuation

Perhaps one of the most significant announcements around superannuation was a "non-announcement". The Government made no comment on making changes to the rate of super guarantee that you can earn as an employee, meaning it will increase by 0.5% to a rate of 10.0% from 1 July 2021. It is currently legislated to then increase at 0.5% per annum until it reaches a rate of 12.0% from 1 July 2025.

Taking it further, the Government did announce that they will legislate to remove the current $450 of wages per month that must be earned before an employer is obligated to make super guarantee payments for an employee. Expected to take effect from 1 July 2022, this measure will allow more Australians to start to accumulate superannuation savings earlier. This is also one of a raft of reforms the Government announced targeting women.

Beyond superannuation guarantee, there were also a number of other changes announced that increase the ability for Australians to further enhance their retirement savings via their superannuation savings. These measures, which are expected to commence from 1 July 2022, include:

- Reducing the qualifying age at which a downsizer contribution of up to $300,000 can be made to super, when selling a principal place of residence, from 65 to 60;
- Deferring the commencement of the work test that needs to be satisfied to make a contribution to super from age 67 to age 75. This will mean that up to the age of 75, you can make an after-tax contribution of $110,000 (based on current thresholds that apply from 1 July 2021) each year without needing to meet a work test in that year. There are still however limitations on how much you can have saved in the super system and still be allowed to make these contributions.

For a number of years, the Government has offered a First Home Super Saver Scheme – allowing prospective first homeowners the ability to access up to $30,000 of their accumulated super savings to be applied towards the purchase of a first home. Whilst there are a range of conditions that will still need to be met to qualify, the amount that can be accessed will be lifted to $50,000.

Finally, the Government has also announced there will be a two-year window to allow retirees who are stuck in older superannuation retirement products (such as lifetime income streams) to elect to exit those income streams and invest their retirement savings in a more contemporary product, such as an account-based pension. These older (or legacy) products offered potential tax and social security benefits, and any previous benefits enjoyed will not need to be repaid. However, any new products commenced will be assessed under the rules that apply at the time that new product is opened. Whilst that may be a worse taxation treatment or could potentially lead to a reduction in age pension entitlements, this may be offset by the ability to now access capital that was previously locked away.

Housing assistance

In addition to the First Home Super Saver Scheme changes mentioned earlier, the Government has announced additional measures to help Australians secure ownership of their first home. These include:

- Establishing the Family Home Guarantee with 10,000 places from 2021-22 to support single parents with dependants to enter, or re-enter, the housing market with a deposit of as little as 2.0%, and
- extending the First Home Loan Deposit Scheme to provide an additional 10,000 New Home Guarantees in 2021-22 to allow eligible first home buyers to build a new home or purchase a newly constructed home sooner with a deposit of as little as 5.0%.

Social security

Whilst many social security recipients have enjoyed an increase in the base rate of their income support payments of $50 per fortnight since 1 April 2021,

the Government has announced greater flexibility around the pensions loan scheme (PLS) for age pension recipients.

Currently the PLS allows recipients to receive (or borrow) an additional regular fortnightly loan amount with any ordinary Age Pension entitlement calculated under the means test. Under the enhanced flexibility announced:

- A 'No Negative Equity Guarantee' will apply, which will ensure that borrowers under the PLS, or their estate will not have to repay more than the market value of their property. This will align the Government scheme with that of private sector reverse mortgages.
- Participants will be allowed to access up to two lump sum advances in any 12-month period, with the two instalments capped at a total value of 50% of the maximum annual rate of Age Pension.

Childcare

Announced prior to the formalities of the 2021-22 Federal Budget, and part of a wider range of announcements in the Budget that are targeted towards women, the Government will:

- Increase the childcare subsidies available to families with more than one child aged five and under in childcare from 11 July 2022. This will be facilitated by increasing the potential subsidy percentage for the second or third child by 30%, but capped at 95%. Families must earn less than $353,680 to receive the additional subsidy. This is expected to benefit around 250,000 families.
- Remove the $10,560 cap on the Childcare Subsidy from 1 July 2022. This cap is currently applicable to families who earn annual adjusted taxable income of more than $189,390. This is expected to benefit about 18,000 families.

Aged care

Several measures were announced in response to the Royal Commission into Aged Care Safety and Quality to establish a $17.7 billion investment in aged care over the next five years to implement a five pillar – five-year plan.

It is intended that these measures will ensure senior Australians will have access to high quality and safe care services, have more control and choice in their care arrangements.

For more information regarding the Federal Budget announcements, please contact your Paradigm Group financial advisor.

** Data and commentary sourced from BT, a part of Westpac Banking Corporation*

Paradigm Wealth Management Pty Ltd
ABN 97 101 700 949 AFSL 297 465
Level 12, 8 Exhibition Street Melbourne 3000 Tel: 03 8646 4000
www.paradigmgroup.com.au