Accurium Federal Budget Report 2020-21

At 7:30pm on Tuesday 6 October 2020 the Treasurer, Josh Frydenberg, released the Government's 2020-21 Budget announcing a range of measures in response to the challenge presented to the Australian economy by the COVID-19 pandemic.

The Accurium Tech Team has analysed the Budget from the perspective of its impact on pre and post retirement for your clients.

At this time these proposed measures are not yet law and could change through implementation.

Taxation

Bringing forward the personal income tax cuts from 1 July 2022
The Government will bring forward the legislated increase in the 19% and 32.5% income tax thresholds from 1 July 2022 to 1 July 2020.

Table 1: Proposed personal income tax thresholds from 1 July 2020

2020-21 marginal tax rate	2020-21 tax bracket (current)	2020-21 tax bracket (proposed)
Nil	Up to $18,200	Up to $18,200
19%	$18,201 - $37,000	$18,201 - $45,000
32.5%	$37,001 - $90,000	$45,001 - $120,000
37%	$90,001 - $180,000	$120,001 - $180,000
45%	$180,000+	$180,000+

The already legislated reduction of the 32.5% marginal tax rate to 30% and removal of 37% personal income tax bracket from 1 July 2024 remains unchanged.

Table 2: 2024-25 personal income tax rates and thresholds

2024-25 marginal tax rate	2024-25 tax bracket
Nil	Up to $18,200
19%	$18,201 - $45,000
30%	$45,001 - $200,000
45%	$200,000+

Bringing forward the increase of Low Income Tax Offset from 1 July 2022
The non-refundable Low Income Tax Offset (LITO) was legislated to increase from the current $445 to $700, starting from 1 July 2022. The legislated increase is proposed to be brought forward to 1 July 2020. As illustrated in the following table the increased LITO will reduce for taxable income above $37,500 per annum and will cut out for taxable income above $66,667 per annum.

Table 3: Eligibility of LITO

Taxable income	Tax offset
Nil to $37,500	Up to $700
$37,500 - $45,000	$700 – [(taxable income - $37,500) x 5 cents]
$45,001 - $66,667	$325 – [(taxable income - $45,000) x 1.5 cents]
$66,667+	Nil

Low and Middle Income Tax Offset unchanged in the 2020-21 financial year
The Government stated that it will retain the Low and Middle Income Tax Offset (LMITO) in the 2020-21 financial year but it will not apply for 2021-22 and future years.

Table 4: Eligibility for LMITO

Taxable income	Tax offset
Nil to $37,500	Up to $255
$37,001 - $47,999	$255 + [(taxable income - $37,000) x 7.5 cents]
$48,000 - $89,999	$1,080
$90,000 - $126,000	$1,080 – [(taxable income - $90,000) x 3 cents]
$126,000+	Nil

The LMITO will continue to be received on assessment after the individual lodges their tax return.

Increase to Medicare Levy low-income thresholds
The 2019-20 financial year Medicare Levy low-income thresholds will be indexed for individuals and families.

Table 5: Medicare Levy thresholds

	2019-20	2018-19
Single	$22,801	$22,398
Single eligible for SAPTO	$36,056	$35,418
Family	$38,474	$37,794
Couple eligible for SAPTO	$50,191	$49,304
Additional threshold for each dependent child	$3,533	$3,471

Capital Gains Tax exemption for granny flat arrangement
Currently, Taxation Ruling 2006/14 outlines the ATO's views on potential capital gains tax (CGT) implications upon a taxpayer entering, surrendering or ending life interest or granny flat types of arrangements. CGT consequences are urrently an impediment to the creation of formal and legally enforceable granny flat arrangements. When faced with a potentially significant CGT liability, families often opt for informal arrangements, which can lead to financial abuse and exploitation in the event that the family relationship breaks down.

The Government will provide a targeted CGT exemption for granny flat arrangements where there is a formal written agreement. This measure is intended to remove these CGT impediments, reducing the risk of abuse to disabled and older Australians. The measure will have effect from the first income year after the date of Royal Assent of the enabling legislation.

Fringe Benefit Tax exemption

In order to incentivise training employees for future unrelated career opportunities, including for training that is not connected to current employment, the Government will introduce an exemption from Fringe Benefit Tax (FBT). The exemption is not available if the retraining is attained by the way of salary packaging or to places who already receive a benefit like Commonwealth supported places. A consultation on availability of tax deductions on education and training unrelated to current employment has also been proposed.

Superannuation

Superannuation Reforms

The Government will implement a 'Your Future, Your Super' package to improve outcomes for superannuation fund members. These reforms, commencing 1 July 2021, are broken down into the following four areas:

1. Your super follows you when you change jobs

An employee's existing superannuation account will be 'stapled' to them to avoid the creation of a new superannuation account when they change employment. If an employee has an existing superannuation account, their new employer will pay super into that existing account, unless the employee selects another fund.

Employers will be able to obtain information about a new employee's existing superannuation fund from the Australian Taxation Office. A second phase will be introduced from 1 July 2022 where the ATO will enable payroll systems to obtain employee superannuation details to eliminate the need for manual entry.

Where a new employee does not have an existing superannuation account and does not nominate a superannuation fund, the employer will pay the employee's superannuation into the employer's default superannuation fund.

> **Accurium Tech Insights**
> We have seen SMSFs carved out from previous measures and legislative requirements. The Budget papers and accompanying fact sheet do not appear to carve out SMSFs from the proposed measure to allow an employee to take super with them when they change jobs. This will be a good outcome for employees with SMSFs and is in line with the superannuation choice reforms.

2. Comparing fund performance

By 1 July 2021, a new interactive online YourSuper comparison tool will be available to assist individuals decide which MySuper product best meets their requirements, by being able to compare the performance and fees of all MySuper products.

3. Holding funds to account for underperformance

From 1 July 2021 MySuper products will be subject to an annual performance test conducted by the Australian Prudential Regulation Authority based on the net investment performance, with products that have underperformed over two consecutive annual tests prohibited from receiving new members until a further annual test that shows they are no longer underperforming. The annual performance test will be extended to other trustee directed APRA regulated superannuation products from 1 July 2022.

4. Increasing transparency and accountability

There will be improved transparency and accountability of superannuation funds by strengthening obligations on superannuation trustees to act in the "best financial interests" of members and ensure their actions are consistent with members' retirement savings being maximised.

Defer the start date of the Retirement Income Covenant

The Government has confirmed its deferral of the commencement of the Retirement Income Covenant, announced in Budget 2018-19, from 1 July 2020 to 1 July 2022 to allow continued consultation and legislative drafting to take place during COVID-19, and for the measure to be informed by the Retirement Income Review.

Facilitating the closure of eligible rollover funds

In response to requests from superannuation funds to provide additional time and flexibility for superannuation funds to transfer amounts to the ATO the Government will amend the Treasury Laws Amendment (Reuniting More Superannuation) Bill 2020 to defer implementation dates of the closure of eligible rollover funds.

Previously announced COVID-19 Response Package

Temporary access to superannuation

To support individuals affected by the financial impacts of COVID-19 eligible Australian and New Zealand citizens and permanent residents were able to access up to $10,000 of their superannuation before 1 July 2020 and can access a further $10,000 from 1 July 2020 until 31 December 2020.

Temporarily reducing super minimum drawdown rates

The Government has halved the superannuation minimum drawdown requirements for account-based pensions and similar products for the 2019-20 and 2020-21 income years.

Revised start dates for Tax and Superannuation Measures

The start date for the 2018-19 Budget measure to increasing the maximum number of allowable members in SMSFs and small APRA funds from four to six has been revised from 1 July 2019 to the date of Royal Assent of the enabling legislation.

The start date for the 2019-20 Budget measure S*uperannuation — reducing red tape for superannuation funds* which would allow SMSF trustees to choose their preferred method of calculating ECPI, and remove a redundant requirement to obtain an actuarial certificate using the proportionate method, where all members of the fund are fully in the retirement phase for all of the income year, has been revised from 1 July 2020 to 1 July 2021.

The start date for the 2015-16 Budget measure to allow the ATO to pay lost and unclaimed superannuation amounts directly to New Zealand KiwiSaver accounts, has been revised from 1 July 2016 to six months after the date of Royal Assent of the enabling legislation.

Centrelink/Department of Veterans Affairs (DVA)

Economic support payments

The Government proposes to provide two $250 economic support payments to be made from early December 2020 and early March 2021 to eligible recipients of the following payments and concession cards:

- Age Pension
- Disability Support Pension
- Carer Payment
- Carer Allowance*
- Pensioner Concession Card (PCC)*
  - Includes clients who have an automatic PCC because they lost the Age Pension due to the assets test changes on 1 January 2017
- Commonwealth Seniors Health Card
- Eligible DVA payments
- DVA Gold card
- DVA Seniors card
- Family Tax Benefit, including Double Orphan Pension*

*If client is not getting a primary income support payment (i.e. to avoid double $250 payments to one individual).

Clients eligible for one of the above payments/concession cards on 27 November 2020 will be eligible for the December 2020 payment, and clients eligible for one of the above payments/concession cards on 26 February 2021 will be eligible for the March 2021 payment.

Pension Loan Scheme (PLS)
The Government proposes to deliver customer experience improvements for the PLS, including:

- a loan calculator to help people test their eligibility and estimate loan balances
- electronic loan repayments
- new online services for customers to make changes to loan terms and print or request itemised statements
- improved access to specialist staff when customers call
- a joint online claim for partnered customers with more relevant questions
- the ability for customers to complete regular loan reviews online

This is expected to start from the end of June 2021.

Veterans
The Government proposes to simplify payment arrangements for veterans from 20 September 2022.

This includes removing the DVA Disability Pension rent test for clients who receive Rent Assistance (RA) from DVA.

It also includes the exemption of DVA Disability Pensions from the income test for Centrelink income support payments, which means the Defence Force Income Support Allowance (DFISA) paid by the DVA to Centrelink clients is no longer needed.

Digital skills for older Australians
The Government will provide the Be Connected Program until 2023-24 to support Australians aged over 50 to gain the skills they need to participate in the digital economy.

Pharmaceutical Benefits Scheme (PBS)
The Government has proposed a few measures regarding the PBS from 2020-21:

- Implement a revised and improved approach to the administration of PBS rebate receipts associated with medicines that have Special Pricing Arrangements
- Provide over four years new and amended listings on the Pharmaceutical Benefits Scheme (PBS) and the Repatriation Pharmaceutical Benefits Scheme (RPBS)

The PBS is available for clients receiving the Pensioner Concession Card, Health Care Card, Low Income Health Care Card and Commonwealth Seniors Health Card.

Clients overseas
The Government will provide additional support to vulnerable Australian citizens whose return to Australia has been impacted by the restrictions arising from COVID-19. The support includes loans to eligible Australians overseas to cover costs of temporary accommodation, daily living expenses and tickets for commercial flights.

For any retirees stuck overseas or with children overseas, they can register with DFAT via covid19.dfat.gov.au if they need consular assistance.

Aged care

Exempting granny flat arrangements from capital gains tax
The Government will provide a targeted capital gains tax (CGT) exemption for granny flat arrangements where there is a formal written agreement. Additional detail can be found in the Taxation section of this report.

Additional home care packages and aged care funding
The Government will provide an additional 23,000 home care packages over four years from 2020-21 across all package levels.

The government will also provide additional funding from 2020-21 to improve transparency and regulatory standards in aged care including:

- continue to reform residential aged care funding under the new Australian National Aged Care Classification system
- maintain the capacity of the Aged Care Quality and Safety Commission in its ongoing regulation and compliance of the aged care sector
- support the Department of Health and the Aged Care Quality and Safety Commission to respond to requests from the Royal Commission into Aged Care Quality and Safety.

Aged care COVID-19 Response Package
The Government will provide the following support for older Australians throughout the COVID-19 pandemic:

- continue the COVID supplement in 2020-21 to assist all Commonwealth funded residential aged care providers and home care providers with the cost of operating during the COVID-19 pandemic
- extend the Workforce Retention Bonus Payment for two years from 2020-21 to support the direct care workforce
- provide additional funding in 2020-21 to support residents of aged care facilities who temporarily leave care to live with their families (Emergency Leave)
- provide additional funding in 2020-21 to support the operation of the Victorian Aged Care Response Centre

Small business measures

Increase the small business entity turnover threshold
From 1 July 2020, the Government will increase the small business entity turnover threshold from $10 million to $50 million. This will allow more businesses to qualify for small business entity concessions.

Businesses with an aggregated annual turnover of $10 million or more but less than $50 million will have access to small business tax concessions in three phases:

1. From 1 July 2020, eligible businesses will be able to immediately deduct certain start-up expenses and certain prepaid expenditure.
2. 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.
3. From 1 July 2021:
   a. eligible businesses will be able to access the simplified trading stock rules, remit pay as you go (PAYG) instalments based on GDP adjusted notional tax and settle excise duty and excise-equivalent customs duty monthly on eligible goods under the small business entity concession.
   b. eligible businesses will 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.
   c. the Commissioner of Taxation'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.

JobMaker Plan

Temporary full expensing

From 7:30pm (AEDT) on 6 October 2020 until 30 June 2022, the Government will allow businesses with turnover of less than $5 billion to deduct the full cost of eligible depreciable assets of any value in the year they are first used or installed ready for use.

Full expensing will apply to new depreciable assets and the cost of improvements to existing eligible assets. However, for businesses with aggregated annual turnover of less than $50 million, full expensing also applies to second-hand assets.

In addition, the Government will provide businesses that hold assets eligible for the enhanced $150,000 instant asset write-off (businesses with an aggregated turnover above $50 million but less than $500 million) with an extra six months (until 30 June 2021), to first use or install those assets.

Temporary loss carry-back

The Government will allow losses incurred in 2019–20, 2020–21 and/or 2021–22 by businesses with turnover of up to $5 billion to be carried back and offset against profits made in or after 2018–19.

Eligible companies may elect to receive the tax refund when they lodge their 2020–21 and 2021–22 tax returns. Companies that do not elect to carry back losses under this measure can still carry losses forward as normal.

Although this measure aims to promote economic recovery for companies that have fallen into a tax loss position as a result of the impact of COVID-19, there does not seem to be a test on whether the losses are connected with the COVID-19 pandemic, and so companies who experience a tax loss for other reasons may also be eligible.

Boosting apprenticeships wage subsidy

From 5 October 2020 to 30 September 2021, eligible businesses of any size will be reimbursed up to 50% of an apprentice or trainee's wages up to $7,000 per quarter (subject to a national cap of 100,000 places).

JobMaker Hiring Credit

From 7 October 2020 eligible employers will be able to claim the JobMaker Hiring Credit for each eligible employee for up to 12 months from the date of employment of the eligible employee.

Eligible employers who can demonstrate that the new employee will increase overall employee headcount and payroll will receive $200 per week if they hire an eligible employee aged 16 to 29 years or $100 per week if they hire an eligible employee aged 30 to 35 years.

The Government factsheet provides details to eligibility requirements for employers and employees:
Budget 2020-2021 FactSheet – JobMaker Hiring Credit

Insolvency reforms for small business

The Government has announced a package of insolvency reforms for small business to commence on 1 January 2021.

These reforms include:

- A new formal debt restructuring process for small businesses to provide a faster and less complex mechanism for financially distressed but viable firms to restructure their existing debts;
- A new, simplified liquidation pathway for small businesses to allow faster and lower-cost liquidation; and
- Complementary measures to ensure the insolvency sector can respond effectively both in the short and long term to increased demand and to the needs of small business.

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