Accurium Federal Budget Report 2021-22

At 7:30pm on Tuesday 11 May 2021 the Treasurer, Josh Frydenberg, released the Government's 2021-22 Budget. The Budget features a number of measures that will impact pre and post retirees, including aged care clients and these measures are the focus of this analysis.

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

Superannuation

Repealing the work test and extending the bring forward provisions

From 1 July 2022, the work test will no longer be required to be met by individuals aged 67 to 74 for voluntary contributions like non-concessional contributions and salary sacrifice contributions. However, individuals aged 67 to74 still need to meet the work test requirements in order to make any personal deductible contributions.

Currently, these individuals (aged 67 to 74) would need to meet a work test or be eligible for a work test exemption before they can make voluntary contributions to super. Contributions can be accepted up until the 28th day after the end of the month on which they turn 75. The work test is satisfied if an individual was gainfully employed for at least 40 hours over a consecutive 30-day period during the financial year.

Individuals aged 65 to 74 will also be able to use the bring forward provisions subject to the available caps and meeting the total super balance criteria. Currently, only those under age 65 on 1 July of a financial year can trigger the bring forward provision in that financial year. The measure that was originally announced in the 2019-20 Federal Budget to extend this age from 65 to 67 effective 1 July 2020 has not been legislated.

The new rules can present new advice opportunities with clients from 1 July 2022 including:

Opportunities to top up retirement savings - Subject to contribution caps, the new rules can help individuals contribute additional funds to super, perhaps where they may have received an inheritance.

Opportunities to implement further recontribution strategies - The additional contribution period coupled with the extension of bring-forward provisions can allow retirees to cash out their existing super and re-contribute (subject to contribution caps) them back to help reduce tax payable from any super death benefits left to non-tax dependants. They can now do this until they turn age 75.

Increased opportunities to make spouse contributions – The new rules can provide individuals the opportunity to continue making spouse contributions which can not only help with equalising super between spouses, but also enable the contributing spouse to leverage the spouse contribution tax offset (subject to meeting the relevant eligibility criteria).

Maximise superannuation in pension phase - Couples where one spouse has exhausted their transfer balance cap and has excess amounts in accumulation are able to withdraw and recontribute to the other spouse who has transfer balance cap space available to commence a retirement phase income stream. This can increase the tax efficiency of the couple's retirement assets as more of their savings are in the tax-free pension phase environment.

Downsizer contributions extended to those who are age 60 and over

From 1 July 2022, the government proposes to extend the ability to make downsizer contributions to those age 60 and over. Currently only those age 65 and over at the time of making the contribution are eligible. All other requirements remain unchanged including the requirement that the home was owned by the person or their spouse for at least 10 years, the sale proceeds are either fully or partially exempt under the main residence exemption and the downsizer contribution made within 90 days of receiving the sale proceeds.

The new rules will allow more individuals to contribute more of their sale proceeds to super - under both the $300,000 downsizer limit (or $600,000 for a couple) and the $330,000 bring forward NCC cap.

No change to legislated Super Guarantee increase

The Government will not change the legislated increase in the Super Guarantee (SG) in this year's Budget. SG will increase to 10% from 1 July 2021 and then gradually increase to 12% as follows:

Period	SG rate (%)
1 July 2021 – 30 June 2022	10.00
1 July 2022 – 30 June 2023	10.50
1 July 2023 – 30 June 2024	11.00
1 July 2024 – 30 June 2025	11.50
1 July 2025 – 30 June 2026 and onwards	12.00

Removing the $450 per month threshold for 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. The Government expects this measure will have effect from 1 July 2022.

Legacy retirement product conversions

Retirees in receipt of legacy retirement products such as market-linked, life-expectancy and lifetime pensions will be given the option to exit these products over a two-year period commencing from the beginning of the first financial year after Royal Assent. Individuals will have the option to fully commute the underlying capital and reserves into the accumulation phase of superannuation.

Currently individuals receiving these legacy pension products face restrictions on when and how they can access their capital or commute the product. The proposed measure will allow individuals to have a choice to shift into more contemporary retirement products.

Some detail provided in respect to the features of this proposed measure include:

- If a client chooses to commute their legacy pension, the social security and taxation treatment from the legacy product will not be grandfathered. Age Pension clients who currently benefit from a 100% or 50% asset-test exemption on their legacy pension may benefit from continuing their income stream.
- Exiting a product will not cause re-assessment of prior social security treatment of the product, for example the deprivation rules.
- Any commuted reserves will be taxed as an assessable contribution of the fund (with a 15% tax rate) but will not count towards the individual's concessional contribution cap.

- The existing transfer balance cap valuations for any commencement or commutation continue to apply.
- Once the commuted amount is in accumulation phase the member can decide what to do with that balance such as take a lump sum, retain in accumulation, or commence a pension (subject to the individual's transfer balance cap).
- The measure will not apply to flexi-pension products or a lifetime product in a large APRA-regulated or public sector defined benefit scheme.

The Government advises that individuals seek independent financial advice when deciding whether to take up the option to exit their legacy product.

First Home Super Saver Scheme (FHSSS)— increasing the maximum releasable amount to $50,000

The Government will increase the maximum releasable amount of voluntary concessional and non-concessional contributions under the FHSSS from $30,000 to $50,000.

Voluntary 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. Subject to passage of legislation, it is expected that this measure will be effective from 1 July 2022.

The Government will further make four technical changes to the legislation underpinning the FHSSS to improve its operation as well as the experience of first home buyers using the scheme.

Relaxing the residency requirements for SMSFs and SAFs

The Government will relax residency requirements for self-managed superannuation funds (SMSFs) and small APRA-regulated funds (SAFs) by extending the central management and control test safe harbour rule from two to five years for SMSFs, and removing the active member test for both SMSFs and SAFs. The Government expects this measure will have effect from 1 July 2022.

This measure will allow SMSF and SAF members to continue to contribute to their superannuation fund whilst temporarily overseas, ensuring consistent treatment with members of large APRA-regulated funds. This will provide members the flexibility to keep and continue to contribute to their fund while undertaking overseas work and education opportunities.

Retirement Income Covenant

The Government provided no further guidance on the proposed Retirement Income Covenant (requiring super fund trustees to formulate, review and give effect to a retirement income strategy for members). The Government deferred commencement of the Covenant to 1 July 2022 in last year's 2020-21 Budget to allow legislative drafting to be informed by the Retirement Income Review.

Social security

Improving the Pension Loan Scheme

Current

The Pension Loan Scheme (PLS) allows a fortnightly loan of up to 150% of the maximum rate of Age Pension to help boost a person's retirement income by unlocking capital in their real estate assets. It can be available for self-funded retirees who are Age Pension age but do not receive a social security pension. Interest is compounded fortnightly at 4.50% p.a., and any debt under the scheme is paid back when the property is sold or the person dies.

Proposal

From 1 July 2022, the Government will introduce a No Negative Equity Guarantee for PLS loans and allow people access to a capped advance lump sum payment.

- **No negative equity guarantee**
  Borrowers under the PLS, or their estate, will not owe more than the market value of their property, in the rare circumstances where their accrued PLS debt exceeds their property value. This brings the PLS in line with private sector reverse mortgages.

- **Immediate access to lump sums under the PLS**
  Eligible people will be able 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 Age Pension (currently $12,385 for singles and $18,670 for couples).

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.

Apply a consistent four-year newly arrived resident's waiting period across payments

The Newly Arrived Resident's Waiting Period currently applies to Carer Payment, JobSeeker Payment, Carer Allowance, Commonwealth Seniors Health Card (CSHC) and Low Income Health Care Card (LIHCC), amongst other benefits and payments.

From 1 January 2022, the Government will increase the Newly Arrived Resident's Waiting Period (NAWRP) for most welfare payments to four years:

- Increase the NARWP for Carer Payment, Parental Leave Pay and Dad and Partner Pay from 104 weeks to 208 weeks.

- Increase the NARWP for Carer Allowance and Family Tax Benefit Part A from 52 weeks to 208 weeks.

- Introduce a 208-week NARWP for Family Tax Benefit Part B.

- Remove the qualifying residence period for Parenting Payment.

The measure will also ensure the previous NARWP changes implemented from 1 January 2019 are applied consistently to concession cards. The NARWP will increase for:

- 309 and 820 visa holders claiming a Low Income Health Care Card, changing from 104 weeks to 208 weeks.

- Special Category Visa holders claiming a Low Income Health Care Card or Commonwealth Seniors Health Card, changing from 104 weeks to 208 weeks.

Increased support for people eligible for working age payments

The following measures have already passed parliament and are now law, but were reiterated again by the Government in the Budget:

- Increased the base rate of working-age payments (including JobSeeker Payment) by $50 per fortnight from 1 April 2021.

- Increased the income-free area of certain working-age payments (including JobSeeker Payment) to $150 per fortnight from 1 April 2021.

- Extended the temporary waiver of the Ordinary Waiting Period for certain payments for a further three months to 30 June 2021.

- Expand the eligibility criteria for JobSeeker Payment and Youth Allowance (other) for those required to self-isolate or care for others as a result of COVID-19 for a further three months to 30 June 2021.

Tax

Low and Middle Income Tax Offset extended another year until 2021-22

The Government announced that it will retain the Low and Middle Income Tax Offset (LMITO) in the 2021-22 financial year.

Eligibility for the LMITO:

Taxable income	Offset
$37,000 or less	$255
Between $37,001 and $48,000	$255 plus 7.5 cents for every dollar above $37,000, up to a maximum of $1,080
Between $48,001 and $90,000	$1,080
Between $90,001 and $126,000	$1,080 minus 3 cents for every dollar of the amount above $90,000

Source: ATO

Increasing the Medicare levy low-income thresholds

The income thresholds at which Medicare levy is payable for singles, families and pensioners will be increased for the 2020-21 financial year as follows:

- 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.

Modernising the individual tax residency rules

The current rules to determine whether an individual is a tax resident will be replaced. The primary test to determine tax residency will be based on whether an individual is physically present in Australia for 183 days or more in any income year.

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.

Small Business

Temporary full expensing extension

Temporary full expensing will be extended by a further 12 months to 30 June 2023. It will 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

Temporary loss carry-back provisions will be extended by a further 12 months to 30 June 2023. This will allow eligible corporate entities with less than $5 billion turnover to carry back tax losses from the 2022-23 income year to offset previously taxed profits as far back as the 2018-19 income year.

Aged Care

Government response to the Royal Commission into Aged Care Quality and Safety

In response to the Royal Commission into Aged Care Quality and Safety the Government announced a $17.7 billion five pillar aged care reform plan.

Pillar 1: Home care – at home support and care based on assessed needs
The Government will provide additional funding for home services including:

- An additional 80,000 home care packages – 40,000 released in 2021-22 and 40,000 in 2022-23, which will make a total of 275,598 home care packages by June 2023;
- Design and plan a new home care program to better meet the needs of senior Australians;
- Additional respite care services and payments to support informal carers;
- Enhance support and face-to-face services to assist senior Australians accessing and navigating and the aged care system

The Government will improve payment arrangements under the Commonwealth Home Support Program with providers to be paid in arrears from 1 July 2022 instead of in advance.

Pillar 2: Residential aged care services and sustainability – improving service suitability that ensures individual care needs and preferences are met
The Government will provide additional funding for residential aged care and sustainability including:

- Increase the amount of front line care (care minutes) delivered to residents of aged care and respite services, mandated at 200 minutes per day, including 40 minutes with a registered nurse;
- Support aged care providers to deliver better care and services through a new Government-funded Basic Daily Fee supplement of $10 per resident per day;
- Assign residential aged care places directly to senior Australians, and to support providers to adjust to a more competitive market;
- Expand the Independent Hospital Pricing Authority to help ensure that aged care costs are directly related to the care provided;
- Implement the new funding model, the Australian National Aged Care Classification (AN-ACC) to deliver a fairer and more sustainable funding arrangement;
- Reform residential aged care design and planning to better meet the needs of senior Australians, particularly those living with dementia.

Pillar 3: Residential aged care quality and safety – improving access to and quality of residential aged care
The Government will provide additional funding for residential aged care quality and safety including:

- Improve access to primary care for senior Australians, including the transition between the aged care and health care settings and improved medication management;
- Ensure the Aged Care Quality and Safety Commission is well equipped to safeguard the quality, safety and integrity of aged care services and can effectively address failures in care and to extend support to manage and prevent outbreaks of COVID-19;
- Additional resources to build capacity within residential aged care for the care of senior Australians living with dementia;
- Dementia Behaviour Management Advisory Service and the Severe Behaviour Response Teams to further reduce the reliance on physical and chemical restraint (restrictive practices);
- Introduce a new star rating system to provide senior Australians, their families and carers with information to make comparisons on quality and safety performance of aged care providers;
- Expand independent advocacy to support greater choice and quality safeguards for senior Australians.

Pillar 4: Workforce – growing a bigger, more skilled, caring and values based workforce
The Government will provide additional funding for the aged care workforce including:

- Upskill the existing workforce and provide training for thousands of new aged care workers, including 33,800 subsidised Vocational Education and Training places through JobTrainer;
- Support the establishment of a single aged care assessment workforce to undertake all assessments for residential care from October 2022, and for home care from July 2023;
- Provide eligible Registered Nurses with financial support of $3,700 for full-time workers, and $2,700 for part-time workers, nursing scholarships and places in the Aged Care Transition to Practice Program;
- Extend the Care and Support Workforce national campaign to help increase the skilled and dedicated aged care workforce.

Pillar 5: Governance and regional access – new legislation and stronger governance
The Government will provide additional funding for regional aged care services including:

- Establish new governance and advisory structures, including a National Aged Care Advisory Council, and Council of Elders, and to work towards establishment of an office of the Inspector-General of Aged Care;
- Improve access to quality aged care services for consumers in regional, rural and remote areas including those with Indigenous backgrounds and special needs groups;
- Establish regional offices as a first phase of a nation-wide rollout to improve advice to Government on issues impacting the delivery of aged care in regional and rural areas.

The Government will draft a new aged care Act to enshrine the government's reforms in legislation by mid-2023. The new Act will replace both the Aged Care Act 1997 and the Aged Care Quality and Safety Commission Act 2018.

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