



FINANCIAL PLANNING
ASSOCIATION *of* AUSTRALIA

BUDGET WRAP-UP

2021-22

OVERVIEW

The Treasurer has delivered a second “pandemic” budget that focuses on key spending measures to drive Australia’s economic recovery.

The budget position has improved dramatically from the forecasts delivered in October 2020. The deficit for 2020-21 is now expected to be \$161 billion, down from \$213.7 billion. This reduction is largely due to a much stronger rebound in employment than was expected at the height of the shutdowns last year. Revenue has also received a boost from strong economic recoveries in our major trading partners and higher than expected resource prices, including iron ore.

This budget’s focus is firmly on getting Australia through the pandemic and promoting economic growth and employment. Recent remarks from the Treasurer have made clear that there are still downside risks to the economy and he expects the Government to continue providing a significant amount of support. The budget does this through new spending on priorities like aged care, childcare, and building the digital economy, as well as tax relief for businesses and low income earners.

The Treasurer has indicated that fiscal consolidation - a reduction in spending - won’t be a focus until unemployment is at an acceptable rate, and the Government’s target is now under 5 per cent. Treasury’s forecasts suggest this may be achievable, with a spurt of 4.25 per cent growth in real GDP next financial year and an unemployment rate reaching 4.75 per cent by mid-2023.

Of note to financial advice, there have been some minor modifications to superannuation contribution rules with the removal of the work test for salary sacrifice and non-concessional contributions, and reduction in the age limit for making downsizer contributions. Most notably the Government has not pursued a change to the superannuation guarantee, with the scheduled increase to 10 per cent going ahead and no introduction of the retirement income covenant through the budget process. The only other notable change is some added flexibility to the pension loan scheme and a significant funding boost to the aged care sector following the recent Royal Commission recommendations.

PERSONAL INCOME TAX

Personal income tax rates remain unchanged from those announced in the 2020-21 Budget, which brought forward the second stage of the Government's Personal Income Tax Plan by two years to 1 July 2020. Stage three of the Plan is unchanged and scheduled to commence in 2024-25.

LOW AND MIDDLE INCOME TAX OFFSET

The Government will extend the Low and Middle Income Tax Offset by one year, making it available for the 2021-22 financial year. This measure provides a reduction in tax of up to \$1,080 to low and middle income earners.

MEDICARE LEVY

The Government will again increase the Medicare levy low-income threshold to account for recent movements in the consumer price index. From 1 July 2020, the following rates will apply:

	Old threshold	New threshold
Singles	\$22,801	\$23,226
Family	\$38,474	\$39,167
Single Seniors and Pensioners	\$36,056	\$36,705
Family Seniors and Pensioners	\$50,191	\$50,094
Dependent Child or Student	+\$3,533	+\$3,597

BUSINESS SUPPORT

DIGITAL ECONOMIC STRATEGY

The Government will spend \$1.2 billion to implement their digital economic strategy. Of specific interest is speeding up the implementation of the Consumer Data Right in banking and expanding it more rapidly across the rest of the economy. This will have benefits for data collection as part of the fact finding process for financial planners.

DEREGULATION PACKAGE

The Government has committed \$134.6 million to reduce compliance costs and streamline regulatory burden in an effort to unlock investment and creating jobs across the economy.

COVID PACKAGE

The Government announced it was extending the 2020/21 COVID-19 Package for small business for a further year with additional funding of \$20.7 billion. The following two measures in particular will be extended:

Temporary Full Expensing Extension

The Government will extend the 2020-21 budget measure for an additional 12 months until 30 June 2023 which allows all businesses with aggregate turnover or total income of less than \$5 billion to fully expense depreciable assets in the current tax year.

Temporary Loss Carry-back Extension

The Government will also extend the 2020-21 budget measure which allows companies to claim back tax paid in prior financial years back to 2018-19 where a tax loss occurs until the end of the 2022-23 financial year.

SUPERANNUATION

SUPERANNUATION THRESHOLDS FROM 1 JULY 2021 TO 30 JUNE 2022 (CHANGES ONLY)

Transfer Balance Cap	\$1.7 million
Concessional Contribution Cap	\$27,500
Non-concessional Contribution Cap	\$110,000 or \$330,000 over 3 years
Low rate cap	\$225,000
Untaxed Plan cap	\$1,615,000
Account based pension payments	Return to default payment levels
Superannuation Guarantee	10%
Maximum Super Contribution Base	\$58,920 (per quarter)
Government Co-contribution (\$500)	Lower income threshold - \$41,112 Upper income threshold - \$56,112

DOWNSIZER CONTRIBUTIONS

The Government will reduce the eligibility age to make a downsizer contribution from 65 to 60 from 1 July 2022. The scheme allows a one-off, post tax contribution of \$300,000 per person from selling a house with contributions not counted towards the non-concessional cap.

REMOVING THE WORK TEST

The Government will allow individuals aged 67 to 74 years (inclusive) 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.

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

SUPER GUARANTEE THRESHOLD

The Government will remove the \$450 per month minimum income threshold under which employees do not have to be paid the superannuation guarantee from 1 July 2022. The measure is expected to boost the superannuation savings of lower income Australians, 63 per cent of whom are women, however will also lead to a reduction in take home pay under most circumstances.

SMSF LEGACY RETIREMENT PRODUCT CONVERSIONS

The Government will allow individuals to exit a range of legacy retirement products for a period of two years (expected to commence from 1 July 2022). This will include market-linked, life-expectancy and lifetime products in SMSF. This measure will allow people to shift into a more contemporary retirement product.

It should be noted that social security and taxation treatment will not be grandfathered for any new products commenced with commuted funds and the commuted reserves will be taxed as an assessable contribution.

The measure will also not be made available on flexi-pension products or a lifetime product in a large APRA regulated or public sector defined benefit schemes.

SMSF RESIDENCY REQUIREMENTS

The Government will relax residency requirements for SMSF and small APRA-regulated funds from 1 July 2022 by extending the central control and management test safe harbour from two to five years, and removing the active member test. This measure will allow SMSF and SAF members to continue to contribute to their superannuation fund whilst temporarily overseas, ensuring parity with members of large APRA-regulated funds.

FIRST HOME SUPER SAVER SCHEME

The Government will increase the maximum amount of voluntary concessional and non-concessional contributions releasable from FHSSS accounts from \$30,000 to \$50,000 from 1 July 2022.

This means all 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.

The Government has also announced some minor amendments to the administration of the FHSSS to provide additional flexibility to the recipient and the ATO to make amendments to their application and withdrawal amount allowing an increase or decrease of the applied amount prior to a payment being made with no penalty to the recipient.

SOCIAL SECURITY

PENSION LOAN SCHEME

The Government has announced that they will be increasing the flexibility of the Pension Loans Scheme (PLS) by allowing participants to access up to two lump sum advances in any 12 month period up to a total value of 50 per cent of the maximum annual rate of the aged pension. Based on current Age Pension rates, the total PLS is around \$12,385 per year for singles, while couples combined could receive around \$18,670.

The Government will also introduce a No Negative Equity Guarantee meaning that the Government will not claim back more than the sale price of the house used to guarantee the payment when it is sold.

To raise awareness of the Pension Loan Scheme, the Government will also spend 21 million on advertising and raising awareness of the scheme.

AGED CARE

The Government will invest a total of \$17.7 billion on aged care reform over five years, including:

- ▶ \$6.5 billion for 80,000 additional Home Care Packages over the next two years
- ▶ \$798.3 million for to provide greater access to respite care services and payments to support carers
- ▶ \$7.8 billion for a new funding model for residential aged care, with a \$10 per person per day supplement of the Basic Daily Fee
- ▶ \$189.3 million over four years from 2020-21 to implement the new funding model, the Australian National Aged Care Classification (AN-ACC)
- ▶ \$117.3 million to support structural reforms, including the implementation of a new Refundable Accommodation Deposit (RAD) Support Loan Program.

REGULATORS

TREASURY

Treasury's budget will increase from \$156 million in 2020-21 to \$165 million in 2021-22, with staff up from 1,135 to 1,325. This is due to the transfer to Treasury of the Infrastructure and Project Financing Agency and the small business policy and programs functions.

AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION

ASIC's budget has been reduced from approximately \$772 million in 2020-21 to \$717 million in 2021-22. Staffing will be reduced from 2,096 to 1,878. This could be due to the business registry function being moved to the ATO. ASIC has no new budget measures and no review of the funding model has been announced at this point.

FINANCIAL ADVISER STANDARDS AND ETHICS AUTHORITY

\$2.5 million has been allocated for the continued operation of the Financial Adviser Standards and Ethics Authority (FASEA) until it is wound up on 31 December 2021.

TAX PRACTITIONERS BOARD

The TPB will see their budget decreased by \$2.1 million over the coming financial year.



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