2020/21 Federal Budget

October 6, 2020

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Overview

All Federal Budgets garner significant interest. The 2020/21 Budget, however, takes this interest to a new level, coming as it does at a time of uncertainty and concern unique in the lifetimes of many Australians.

The coronavirus pandemic has caused significant damage to the Australian economy, and a large number of the proposals in the 2020/21 Budget aim to lessen that impact. The JobKeeper Payment, Coronavirus Supplement, early release of super and reduction in income stream minimums all provided rapid financial relief. This tranche of Budget proposals aims to ensure further damage is not sustained as the initial relief phases out or is withdrawn.

The main focus of the Budget is personal and business tax relief and infrastructure projects. The acceleration of personal tax cuts and the swathe of business tax incentives should provide additional liquidity to cash-strapped clients and their businesses.

Superannuation did not go unaddressed in the Budget either. While there was no pausing of Superannuation Guarantee rates or additional early release provisions, the implementation of a series of reforms recommended by the Productivity Commission stands to vastly reshape the industry.

Treasurer Josh Frydenberg's first Budget in 2019/20 was delivered a month early due to an election. His second is five months late due to a pandemic. Given this delay between Budgets; the Australian public will be looking to parliament to provide certainty and security around the stimulus proposals as quickly as possible.

Taxation

2022/23 tax cuts brought forward to 2020/21

Effective date: From July 1, 2020

In the 2018/19 and 2019/20 Federal Budgets, a series of adjustments to personal tax rates were proposed, then subsequently legislated. A major tranche of these changes has been proposed to be brought forward from 2022/23 to the current financial year.

The upper threshold of the 19 per cent tax bracket is proposed to increase to $45,000 from $41,000 from July 1, 2020. The upper threshold of the 32.5 per cent tax bracket is also proposed to increase from $90,000 to $120,000. The current and proposed tax rates are summarised in the table below.

Current tax brackets		Proposed 2020/21 brackets	
Taxable Income	**Tax payable**	**Taxable Income**	**Tax payable**
$18,200 or less	Nil	$18,200 or less	Nil
$18,201 - $37,000	Nil + 19% for each dollar over $18,200	$18,201 - $45,000	Nil + 19% for each dollar over $18,200
$37,001 - $90,000	$3,572 + 32.5% for each dollar over $41,000	$45,001 - $120,000	$5,092 + 32.5% for each dollar over $45,000
$90,001 - $180,000	$20,797 + 37% for each dollar over $120,000	$120,001 - $180,000	$29,467 + 37% for each dollar over $120,000
$180,001+	$54,097 + 45% for each dollar over $180,000	$180,001+	$51,667 + 45% for each dollar over $180,000

The increased Low Income Tax Offset (LITO) is also proposed to be brought forward to the 2020/21 tax year. LITO is proposed to apply as outlined in the table below.

Taxable income	2020/21 saving
$37,500 and below	$700
$37,501 to $45,000	$700 minus 5c for every dollar over $37,500
$45,001 to $66,667	$325 minus 1.5c for every dollar over $45,000
Over $66,667	nil

The Low and Middle Income Tax Offset (LaMITO) is to remain unchanged in 2020/21. No change has been proposed to the legislated 2024/25 personal tax amendments either.

Implications for clients

The tax savings clients will enjoy as a result of the proposed acceleration of the 2022/23 tax cuts are summarised below.

Taxable income	2020/21 saving
$35,000	$255
$40,000	$580
$50,000	$540
$60,000	$540
$70,000	$540
$80,000	$540
$90,000	$540
$95,000	$765
$100,000	$990
$105,000	$1,215
$110,000	$1,440
$120,000+	$1,890

Temporary loss carry-back for businesses

Effective date: July 1, 2019

In the Budget, the Treasurer proposed to allow losses to be applied to previous years for corporate entities with aggregated turnover of less than $5 billion. Under this loss carry-back arrangement, losses in 2019/20, 2020/21 or 2021/22 will be able to be applied to earlier financial years from 2018/19 onwards. The loss is not to exceed the earlier taxed profits and a franking account deficit cannot be created.

Practically, this proposal would be achieved by creating a refundable tax offset in the year the loss is made. A refund would be available to eligible businesses who choose to use the proposed provisions when they lodge their relevant tax returns in 2020/21 and 2021/22.

Implications for clients

Businesses significantly impacted by the coronavirus pandemic will have access to earlier cashflow through the use of this proposed provision than would be the case were all losses required to be carried forward.

Broadening temporary upfront deductions on capital assets for business

Effective date: October 6, 2020

From Budget night, businesses with aggregated annual turnover of less than $5 billion are proposed to be able to deduct the full upfront cost of eligible capital assets first used or installed by June 30, 2022. This full expensing of assets in the first year will apply to new depreciable assets and improvements to existing eligible assets.

Businesses with aggregated annual turnover of less than $50 million can also fully deduct second hand assets.

Businesses with annual turnover between $50 million and $500 million can still deduct the full cost of eligible second-hand assets costing less than $150,000 that are purchased by December 31, 2020 under the instant asset write-off. Businesses looking to use this exemption are proposed to have an additional 6 months, until June 30, 2021, to first use or install those assets.

Businesses with aggregated annual turnover of less than $10 million can deduct the balance of their depreciation pool at the end of the year of income while this proposed full expensing applies. Provisions preventing businesses re-entering the simplified depreciation regime for 5 years should they opt out will continue to be suspended for the same duration.

Implications for clients

This suite of enhanced upfront deductions aims to encourage all businesses to make investments in depreciable capital assets.

Small business definition for multiple benefits to be extended

Effective date: Various

The current turnover threshold to be considered a small business for a range of exemptions is $10 million. This threshold is proposed to be increased to $50 million.

Currently, small businesses under this definition can benefit from Fringe Benefits Tax (FBT) exemptions, namely:

- An exemption on free, non-commercial car parking spaces, and
- An exemption on multiple work-related devices, such as laptops, tablets, calculators, GPS devices and mobile phones.

Such small businesses can also immediately deduct certain start-up expenses and prepaid expenses and access simplified trading stock rules among other concessions.

Implications for clients

More small to medium-sized businesses will be able to benefit from these tax concessions.

Retraining expenses exempt from FBT

Effective date: October 2, 2020

Under current rules, only training provided for by an employee that is directly related to that employee's role is exempt from FBT.

As announced by the Treasurer on October 2, and reiterated in the Budget papers, retraining and reskilling of employees who are to be redeployed in the business, or outside the business, is proposed to be exempt from FBT from October 2, 2020. This exemption is not to apply to training or education paid for through a salary packaging arrangement or that is provided through Commonwealth supported places at a university.

The Government also plans to consult on applying similar rules to education and training paid for by individuals that aims to allow them to reskill.

Implications for clients

Retraining employees may well be a more appealing option for employers looking to reshape their business under this proposal.

CGT on Granny Flats to cease

Effective date: on Royal Assent

In 2018, the then Assistant Treasurer, Stuart Robert, announced a Board of Taxation review into the levying of Capital Gains Tax (CGT) on granny flat arrangements. The review recommended CGT not be charged on granny flat arrangements where a formal agreement is entered into by the relevant parties.

In this Budget, it is proposed that creation, termination of variation of written granny flat arrangements will not attract CGT where the arrangement provides accommodation for older Australians or people with disabilities.

Implications for clients

It is hoped that the removal of CGT from these arrangements will encourage clients to formalise granny flat arrangements and lessen the risk that vulnerable clients will be subject to abuse from the owner of the accommodation should their relationship deteriorate.

Advisers and clients should look to formalise such arrangements (upon the passing of the changes) to ensure security of tenure and that CGT will not apply to the arrangement.

Superannuation

Super funds to be "stapled" to employees

Effective date: by July 1, 2021

By July 1, 2021, an employee's super fund contributed to by their previous employer (if it is still active) is proposed to be the default fund into which a new employer would contribute. This would prevent employees receiving a new default fund every time they join a new employer.

This process would be managed through the employer engaging with the ATO. If an employee does not have an existing chosen super account (for example, if it is their first job), the employer would still need to use a default MySuper fund.

This proposal follows up on a recommendation by the Productivity Commission.

Implications for clients

This proposed new process could dramatically reduce the number of super accounts accrued by employees over their working life. It does also mean that employees and their advisers should be regularly reviewing their super fund to ensure it still meets the employee's needs. Over the course of a full career, there is the prospect that an employee could retain an outdated fund through this process.

Clients to be able to compare funds through online YourSuper tool

Effective date: by July 1, 2021

By July 1, 2021, a new online tool, YourSuper, is proposed to be created that will allow clients to compare the fees and performance of MySuper products. The tool will link clients to websites where they can apply for new MySuper accounts and will also prompt them to consolidate their super if they have multiple funds.

Implications for clients

An online comparator is likely to be welcomed by clients – however it does increase the risk of clients changing products without considering all relevant factors, including insurance coverage and investment choice.

Advisers and clients will need to communicate closely to ensure they are on the same page when it comes to the choice of a superannuation fund.

Super funds to be subject to annual performance tests

Effective date: by July 1, 2021

By July 1, 2021, all MySuper funds are to be benchmarked by APRA. Funds that are deemed to be underperforming will need to inform their members of this outcome. Funds that are considered to have underperformed for two consecutive years will be closed to new members until their performance improves.

This benchmarking is proposed to be extended to other super products (presumably Choice funds), by July 1, 2022.

This proposal follows up on a recommendation by the Productivity Commission.

Implications for clients

Clients will be pleased that underperformance of their super fund will be brought to their attention quickly. The potential negative effects of being identified as underperforming will incentivise publicly-offered super funds (MySuper funds initially, and other funds subsequently) to avoid investment choices that could see them underperform the benchmark.

The flipside of this conservatism is that few, if any, publicly-offered super funds are likely to attempt to significantly outperform the benchmark. This could leave self managed super funds (SMSFs) as the only option available to clients who wish to pursue a more aggressive investment strategy.

Social security

Additional COVID-19 stimulus payments

Effective date: from November 2020

In March and July, additional payments were made to social security recipients. In November 2020, and again in early 2021, two additional tax-exempt payments of $250 each are proposed to be made to recipients of the following payments and benefits:

- Age Pension
- Disability Support Pension
- Carer Payment
- Family Tax Benefit, including Double Orphan Pension
- Carer Allowance
- Pensioner Concession Card holders
- Commonwealth Seniors Health Card holders
- Veteran Service Pension; Veteran Income Support Supplement; Veteran Compensation payments, including lump sum payments; War Widow(er) Pension; and Veteran Payment.
- Veteran Gold Card holders

Implications for clients

The payments represent small, but welcome, additional bonuses for social security recipients.

Relaxed Paid Parental Leave work test

Effective date: from March 22, 2020

Eligibility for the government-funded Paid Parental Leave scheme includes a work test in its eligibility criteria. In the Budget, the Government proposed to relax that work test for births that occur between March 22, 2020 and March 31, 2021.

Rather than needing to have worked in 10 of the 13 months preceding a birth or adoption, applicants are proposed to only need to have worked in 10 of the 20 months before the birth or adoption.

Implications for clients

The relaxing of the work test will allow more clients to qualify for government-funded Paid Parental Leave.

Borrowing

First Home Loan Deposit Scheme to be expanded

Effective date: the 2020 calendar year

On January 1, 2020, the government commenced the First Home Loan Deposit Scheme (FHLDS), The FHLDS provides a guarantee to help eligible first home buyers increase their security amount on the purchase of their first home to 20 per cent. First home buyers need to meet an income test, the purchased home needs to be valued below set thresholds and the first home buyer(s) need to have at least 5 per cent of the home's value as a deposit. A limit of 10,000 guarantees per financial year applies. Guarantees are applied on a first-come, first-served basis.

In the 2020/21 Federal Budget, funding for an additional 10,000 guarantees for those building their first home, or purchasing a newly built first home, has been proposed in the 2020 calendar year. Furthermore, the value thresholds for these additional 10,000 guarantees are proposed to be increased as per the table below:

Area	Current value cap	Proposed value cap
ACT	$500,000	$600,000
Sydney, Illawarra, Newcastle and Lake Macquarie	$700,000	$950,000
Other NSW	$450,000	$600,000
Melbourne and Geelong	$600,000	$850,000
Other Vic	$375,000	$550,000
Brisbane, Sunshine Coast and Gold Coast	$475,000	$650,000
Other Qld	$400,000	$500,000
NT	$375,000	$550,000
Adelaide	$400,000	$550,000
Other SA	$250,000	$400,000
Perth	$400,000	$550,000
Other WA	$300,000	$400,000
Hobart	$400,000	$550,000
Other Tas	$300,000	$400,000

Implications for clients

By lifting the borrower's security amount to 20 per cent, the lender should no longer require the borrower to take out mortgage protection insurance. The cost of such insurance can vary from hundreds to thousands of dollars a year, depending on the age of the life insured, the size of the loan and associated repayments, and the events covered.

It is important to note that the new guarantees are only available for new builds and newly built homes, not existing homes.

Aged care

Home care packages funded

Effective date: from July 1, 2020

The Government proposes to commit to funding for an additional 23,000 home care packages across all levels over 4 years.

Implications for clients

Clients who are waiting for a home care package may see their wait reduced.