

A photograph of the Australian Parliament House in Canberra at dusk. The building's iconic three-pronged roof is silhouetted against a twilight sky, with the Australian flag flying from a tall pole. The building's facade is lit up from within, showing a grid of windows and columns. In the foreground, there is a body of water reflecting the building and the sky, and a low wall with some greenery.

FIRSTTECH

FEDERAL BUDGET BRIEFING

7 October 2020

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Contents

| | |
|---|----|
| Introduction | 3 |
| Tax..... | 3 |
| Personal tax cuts | 3 |
| Exempting granny flat arrangements from capital gains tax | 4 |
| Business tax incentives | 5 |
| Temporary full expensing..... | 5 |
| Enhanced instant asset writing-off..... | 5 |
| Temporary loss carry-back..... | 5 |
| Increasing the small business entity turnover threshold to access certain tax concessions | 6 |
| International tax | 7 |
| Updating the list of exchange of information jurisdictions..... | 7 |
| Superannuation reform – Your Future, Your Super | 7 |
| Super ‘stapled’ to a member..... | 7 |
| YourSuper comparison tool – making it easier to choose..... | 7 |
| Holding funds to account for underperformance | 7 |
| New duties and responsibilities for super fund trustees..... | 8 |
| Jobs and manufacturing | 8 |
| JobMaker hiring credit | 8 |
| Apprenticeships wage subsidy | 9 |
| Modern manufacturing strategy | 9 |
| Social Security | 9 |
| \$250 Economic Support Payments | 9 |
| Youth Allowance and ABSTUDY independence test | 10 |
| Parental Leave Pay – Work test extension | 10 |
| DVA Disability Pensions – exempt for rent assistance and income support payments | 11 |
| Pension Loans Scheme – additional resources..... | 11 |
| Aged Care..... | 12 |
| More funding for Home Care packages | 12 |
| Other measures | 12 |
| MSF and small APRA funds – deferring the increase in the maximum number of allowable members from four to six | 12 |
| Managed Investment Trusts – deferring the removal of the capital gains discount | 12 |
| Tax Integrity – deferring the start date of proposed Division 7A amendments | 12 |
| Superannuation – deferring the start date to reduce red tape | 13 |

Introduction

Last night the Federal Government handed down its Budget for the 2020–21 financial year. After going into a record deficit of \$213.7 billion to support individuals and businesses during the Coronavirus crisis, the focus of this year's Budget is to regrow the economy by creating job opportunities and encouraging spending.

Some key Budget announcements that financial advisers and their clients should be aware of include:

- bringing forward the income tax cuts that were scheduled for 2022
- helping members pay less in super fees and holding super funds accountable for poor performance
- additional support payments for Age Pension and welfare recipients
- temporary full expensing to encourage business investment, and tax changes to help businesses offset their tax losses against past profits.

Finally, it's important to remember that the Budget announcements are still only proposals at this stage. Each of the proposals must be passed by Parliament before they're legislated.

Tax

Personal tax cuts

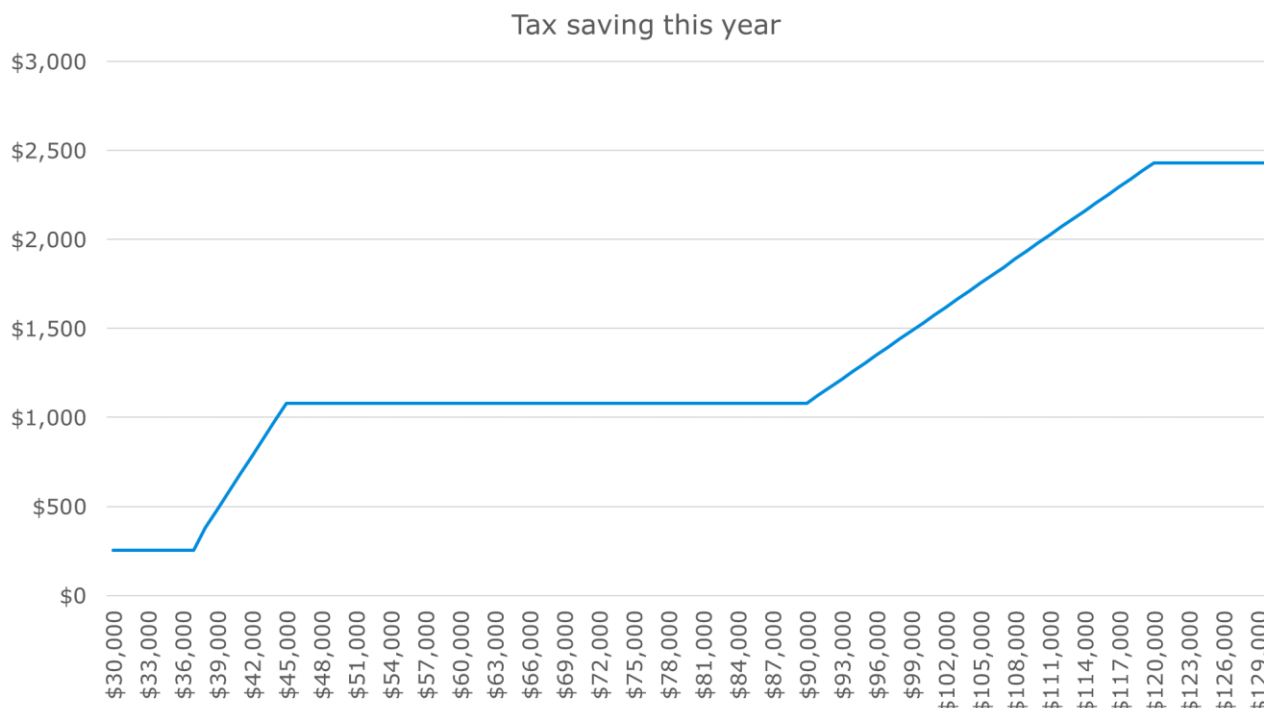
Effective 1 July 2020

The Government has announced it will bring forward, by two years, stage two of the previously legislated tax cuts that were due to take effect from 1 July 2022. As a result, from 1 July 2020:

- the Low Income Tax Offset (LITO) will increase from \$445 to \$700. The increased LITO will be reduced at a rate of 5 cents per dollar for taxpayers that have taxable incomes between \$37,500 and \$45,000. The LITO will then be reduced at a rate of 1.5 cents per dollar for taxpayers that have taxable incomes between \$45,000 and \$66,667.
- the top threshold of the 19% tax rate will increase from \$37,000 to \$45,000, and
- the top threshold of the 32.5% tax rate will increase from \$90,000 to \$120,000.

The Government has also announced that the Low and Middle Income Tax Offset (LMITO), which was due to be removed with the commencement of the stage two tax cuts on 1 July 2022, will be maintained for the 2020–21 year only.

The following chart shows the tax cuts individuals are proposed to receive this financial year (2020–21) based on their income levels and current tax settings.



However, it should be noted that the tax cut of \$1,080 for individuals earning between \$48,000 and \$90,000 will only apply for this year and will cease to be apply from 1 July 2021 due to LMITO being phased out from that date.

Other individuals earning below \$126,000 will also be impacted (to a lesser extent) by the removal of LMITO from 1 July 2021.

FirstTech comment: No change to effective date of stage three tax cuts

The Government made no announcements in relation to also bringing forward the effective date of the stage three tax cuts that were due to take effect from 1 July 2024. Under these tax cuts, the 37% tax rate will be abolished and the 32.5% tax rate will reduce to 30% and will apply from \$45,000 to \$200,000.

Exempting granny flat arrangements from capital gains tax

Effective 1 July 2021

The Government announced that it will provide a targeted capital gains tax (CGT) exemption for granny flat arrangements where there is a formal written agreement. The measure will have effect from the first income year after the date of Royal Assent of the enabling legislation (i.e. as early as 1 July 2021 subject to the passing of legislation).

A granny flat arrangement can provide a solution for an older or disabled person who may not be able to continue living an independent lifestyle and would like to move closer to a relation. It usually involves:

- an older or disabled person 'paying' for a life interest or right to accommodation for life in a private residence that is to be the person's principal home, and
- the residence not being owned by the individual, their partner, or an entity that they control.

Under the existing rules, the ATO in tax ruling TR 2006/14 confirms that CGT event D1 may occur on the creating of the right to reside in the family member's dwelling. The tax consequences can be a key impediment to families creating formal and legally enforceable granny flat arrangements, and

instead, families may opt for informal arrangements which can leave open the risk of financial abuse and exploitation; for example, following a family or relationship breakdown.

Under the proposed measure, CGT will not apply to the creation, variation or termination of a formal written granny flat arrangement providing accommodation for older Australians or people with a disability.

The measure is consistent with the Government's *National Plan to Respond to the Abuse of Older Australians* announced on 19 March 2019, the Board of Taxation's *Review of Granny Flat Arrangements*, and the 2017 Australian Law Reform Commission's Report: *Elder Abuse—A National Legal Response*.

Business tax incentives

The Government will support businesses to invest, grow and create more jobs through targeted tax incentives.

Temporary full expensing

Effective 6 October 2020

Businesses with aggregated annual turnover below the relevant threshold 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.

- Full expensing in the year of first use will apply to **new depreciable assets** and the cost of improvements to existing eligible assets for businesses with aggregated annual turnover of less than \$5 billion.
- Full expensing also applies to **second-hand assets** for small and medium-sized businesses with aggregated annual turnover of less than \$50 million.

Full expensing does not apply to second-hand assets for businesses with aggregated annual turnover of \$50 million or more.

Enhanced instant asset writing-off

First used and installed 30 June 2021

Business with aggregated 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 31 December 2020 under the existing expanded instant asset write-off measure.

The existing enhanced instant asset write-off measure requires an eligible asset to be first used or installed by 31 December 2020 to qualify. The Government announced that businesses that hold assets eligible for the enhanced \$150,000 instant asset write-off will have an extra six months (until 30 June 2021) to first use or install those assets.

Temporary loss carry-back

Effective from 2019-20

Under the existing rules, companies are required to carry losses forward to offset profits in future years.

The Government has announced that it will allow companies with aggregated annual turnover of less than \$5 billion to carry back tax losses from 2019-20, 2020-21 or 2021-22 income years to offset previously taxed profits in the 2018-19 or later income years.

Eligible corporate tax entities can elect to apply tax losses against taxed profit in a previous year, generating a refundable tax offset in the year in which the loss is made. The tax refund is limited by

requiring that the amount carried back is not more than the earlier taxed profit, and cannot result in a franking account deficit.

The tax refund will be available on election by eligible companies 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.

FirstTech comment

The temporary loss carry-back measure will allow an eligible business to access their losses earlier and generate a cash refund to provide a needed cash flow boost for the corporate business.

Although an eligible business is able to carry back their 2019-20 income year losses under this proposal, the information announced by the Government appears to suggest that the earliest time a company is able to receive the cash refund is after they lodge their 2020-21 income year tax return (i.e. after 30 June 2021).

Increasing the small business entity turnover threshold to access certain tax concessions

Measures staggered from 1 July 2020

The Government will expand access to a range of small business tax concessions by increasing the small business entity turnover threshold for these concessions from \$10 million to \$50 million.

Businesses with an aggregated annual turnover of \$10 million or more, but less than \$50 million, will for the first time have access to up to 10 further small business tax concessions in three phases:

- From 1 July 2020, eligible businesses will be able to immediately deduct certain start-up expenses and certain prepaid expenditure.
- From 1 April 2021, eligible businesses will be exempt from the 47% fringe benefits tax on car parking and multiple work-related portable electronic devices (such as phones or laptops) provided to employees.
- From 1 July 2021, 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;
 - settle excise duty and excise-equivalent customs duty monthly on eligible goods under the small business entity concession;
 - have a two-year amendment period apply to income tax assessments for income years starting from this date.

In addition, from 1 July 2021, the ATO will have the power to create a simplified accounting method determination for GST purposes for these businesses.

FirstTech comment

This announcement does not affect the aggregated turnover test that requires a small business entity to have an aggregated turnover of \$2 million to qualify for small business CGT concessions.

International tax

Updating the list of exchange of information jurisdictions

Effective 1 July 2021

The Government will update the list of jurisdictions that have an effective information-sharing agreement with Australia. Residents of listed jurisdictions are eligible to access the reduced Managed Investment Trust (MIT) withholding tax rate of 15% on certain distributions, instead of the default rate of 30%. The updated list will be effective from 1 July 2021.

To be listed, jurisdictions must have established the legal relationship enabling them to share taxpayer information with Australia. This measure will add the Dominican Republic, Ecuador, El Salvador, Hong Kong, Jamaica, Kuwait, Morocco, North Macedonia and Serbia, and remove Kenya from the existing 122 jurisdictions on the list. These new jurisdictions have entered into information-sharing agreements since the previous update in 2019.

Superannuation reform – Your Future, Your Super

Super 'stapled' to a member

Effective 1 July 2021

When a person starts a new job and does not nominate a super fund, employers will be required to contribute to the employee's existing super account, rather than the employer's default super fund.

Under this measure, the existing super account will be 'stapled' to the member so that they keep their current super fund when they change jobs. The aim of this measure is to improve member outcomes by reducing unintended multiple super accounts that erode member balances through unnecessary fees and insurance premiums.

This measure implements Recommendation 3.5 of the Hayne Royal Commission.

Employers will be able to obtain the new employee's existing super fund details from the ATO's online services.

It is important to note that the opportunity to nominate a chosen fund is still available under this reform.

YourSuper comparison tool – making it easier to choose

Effective 1 July 2021

A new, interactive, online YourSuper comparison tool, to be developed by the ATO, will make it easier for members to choose their super fund. The online tool will:

- rank MySuper products by fees and investment returns
- provide links to super fund websites
- show the member's current super accounts and prompt members to consolidate.

FirstTech comment

The YourSuper tool will make it easier for members to compare the fees and performance of super funds in the market, creating more competition amongst super funds.

Holding funds to account for underperformance

Effective 1 July 2021

By 1 July 2021, APRA will conduct annual benchmarking tests on the net investment performance of MySuper products.

If a fund is deemed to be underperforming, it will need to inform its members of its underperformance by 1 October 2021. At this time, members must also be provided with information about the YourSuper comparison tool, which will identify any underperforming funds.

Funds that fail two consecutive annual underperformance tests will not be permitted to accept new members until a further annual test shows that they are no longer underperforming.

By 1 July 2022, annual performance tests will be extended to other superannuation products.

FirstTech comment

The reporting of underperforming funds is likely to encourage members to rollover to a super fund with better performance. This may lead to consolidation of the number of super funds in the industry.

New duties and responsibilities for super fund trustees

Effective 1 July 2021

The Government will ensure superannuation trustees are more accountable and transparent as to how they manage the retirement savings of members.

By 1 July 2021:

- Superannuation trustees will be required to comply with a new duty to act in the best financial interests of members.
- Trustees must demonstrate that there was a reasonable basis to support their actions that is consistent with members' best financial interests.
- Trustees must provide members with key information regarding how they manage and spend their money in advance of Annual Members' Meetings.

FirstTech comment

This new proposed duty reflects the sentiment of the Hayne Royal Commission.

Section 52(2)(c) of the SIS Act requires a trustee to perform their duties and exercise their powers in the best interests of beneficiaries. However this new duty is to act in the best *financial* interests of members.

The Hayne Royal Commission identified that "The best interests covenant is simply stated. Yet the conduct examined by the Commission, and submissions made by trustees, suggested that some trustees had difficulty understanding when and how the covenant applied." (p 225)

Hayne also emphasised that "Proper governance is necessary in order to fulfil the basic promise of a superannuation fund that the trustee will administer the fund in the best interests of members, and in particular, in the best *financial* interests of members." (p 264)

Jobs and manufacturing

JobMaker hiring credit

Over three years from 7 October 2020

To support organisations in taking on new employees, the Government proposes to pay a hiring credit for up to 12 months for each new job. This is available from 7 October to employers who hire eligible employees age 16 to 35.

The credit will be paid quarterly in arrears at the rate of \$200 per week for those age 16 to 29, and \$100 per week for those age 30 to 35. Eligible employees are required to work a minimum of 20 hours per week and receive the JobSeeker Payment, Youth Allowance (other) or Parenting Payment for at least one month out of the three months prior to when they are hired.

To be eligible, employers will need to demonstrate an increase in overall employee headcount and payroll for each additional new position created.

Apprenticeships wage subsidy

From 5 October 2020

From 5 October 2020 to 30 September 2021, businesses of any size will be able to claim a new Boosting Apprentices Wage Subsidy for new apprentices or trainees who commence during this period.

Eligible businesses will be reimbursed up to 50% of an apprentice or trainee's wages worth up to \$7,000 per quarter, capped at 100,000 places.

The wage subsidy will support school leavers and workers displaced by the Coronavirus-related downturn to secure sustainable employment.

Modern manufacturing strategy

Over five years from 2020-21

The Government will provide \$1.5 billion over five years from 2020-21 to support the building of competitiveness, scale and resilience in the Australian manufacturing sector. Investment and support will focus on creating manufacturing strength and capability in six areas of comparative advantage and strategic interest. These six are: resources technology & critical minerals processing; food & beverages; medical products; recycling & clean energy; defence; and space.

Social Security

\$250 Economic Support Payments

Effective December 2020 and March 2021

The Government is providing two separate one-off Economic Support Payments of \$250 to individuals receiving eligible income support payments or concession cards.

The \$250 payments will be paid progressively from December 2020 and March 2021.

Eligible individuals must be in receipt of the following payments as at 27 November 2020 and/or 26 February 2021:

- Age Pension (including Age Pension (Blind))
- Carer Allowance*
- Carer Payment
- Commonwealth Seniors Health Card
- Disability Support Pension (including Disability Support Pension (Blind))
- Double Orphan Pension*
- DVA Gold Card
- DVA Payments
- DVA Seniors Card
- Family Tax Benefit (fortnightly recipients)*

- Family Tax Benefit (lump sum recipients)*
- Pensioner Concession Card (PCC) holders (covers non-income and asset test PCC holders and customers who have an extended entitlement to a PCC even though their payment has stopped).

* if they are not receiving a primary income support payment.

FirstTech comment

Those individuals eligible for the Coronavirus Supplement of \$250 per fortnight, such as those receiving the JobSeeker Payment, are not eligible for the one-off \$250 Economic Support Payment.

In addition, if an individual only holds a Low Income Health Care Card, they do not qualify for the one-off \$250 Economic Support Payments.

Youth Allowance and ABSTUDY independence test

Effective 1 January 2021

The Government is making a temporary change to the criteria used to determine independence for Youth Allowance and ABSTUDY.

The independence test is important as young people who are considered independent from their parents are not subject to the Parental Income Test.

There are a number of ways of meeting the independence test; however, a common method is to meet the workforce participation criteria which require young people to work 30 hours per week for at least 18 months within a two-year period.

Under this temporary measure, from 1 January 2021 all Youth Allowance and ABSTUDY applicants will automatically be deemed to have worked over the six-month period from 25 March 2020 to 24 September 2020.

FirstTech comment

This measure will assist young people to meet the workforce participation criteria, who were unable to obtain employment due to the economic impacts of Coronavirus while on a gap year in 2020.

Parental Leave Pay – Work test extension

Effective – Child born or adopted between 22 March 2020 and 31 March 2021

The Government is temporarily extending the work test for Paid Parental Leave and Dad and Partner Pay from 13 months to 20 months, for those affected by the Coronavirus pandemic.

To be eligible for the extended work test, the individual must:

- not meet the current work test because their employment is impacted by the Coronavirus pandemic, and
- have a child born or adopted between 22 March 2020 and 31 March 2021.

For Parental Leave Pay, the work test period for these parents will be extended from 13 months to 20 months before either the:

- birth or adoption of their child, or

- start of their Dad and Partner Pay period.

This means work undertaken by the parent before Coronavirus can be counted towards the work test.

In the extended 20-month work test period, these parents will need to meet the work test requirements of:

- 330 hours in a 10-month period, and
- no more than a 12-week break between work days.

FirstTech comment

This measure means that work undertaken by the parent before Coronavirus can be counted towards the work test.

Services Australia will contact parents who had a claim for Parental Leave Pay or Dad and Partner Pay rejected from 22 March 2020 due to not meeting the work test, to invite them to test their eligibility under the revised rules.

DVA Disability Pensions – exempt for rent assistance and income support payments

Effective – Measures staggered between 1 July 2021 and 20 Sept 2022

A number of changes will be made to the DVA Disability Pension including:

- exempted from the Social Security Act income test
- exempted from the calculation of rent assistance under the Veterans Entitlement Act
- renamed Disability Compensation Payment.

FirstTech comment

Under current rules, those who receive a reduction in social security payments due to the inclusion of the DVA Disability Pension under the income test receive a payment called DFISA (Defence Force Income Support Allowance) to compensate for the reduction. If the proposal to exempt the DVA Disability Pension from the social security income test is legislated, DFISA can be abolished as it is no longer required.

Pension Loans Scheme – additional resources

Effective June 2021 and ongoing

The Government is making the following improvements to the services available to customers regarding the Pensions Loan Scheme:

- loan calculator to help people test their eligibility and estimate loan balances
- electronic loan repayments
- online services to make changes to loan terms and print itemised statements
- improved access to specialist staff
- joint online claim for partnered customers
- ability to complete regular loan reviews online.

Aged care

More funding for Home Care packages

Effective from 2020-21

The Government will improve waiting times for Home Care Packages by increasing funding for 23,000 additional home care packages across all package levels.

In addition, improvements will be made to navigating the aged care system including classifying the care needs of older Australians through one unified system.

Other measures

SMSF and small APRA funds – deferring the increase in the maximum number of allowable members from four to six

Effective - enabling legislation receives Royal Assent

In the 2018-19 Federal Budget, the government proposed to increase the maximum number of allowable members in self-managed super funds and small APRA funds from four to six commencing from 1 July 2019. This measure is now proposed to commence from the date the enabling legislation receives Royal Assent.

Managed Investment Trusts – deferring the removal of the capital gains discount

Effective - income year commencing on or after three months after Royal Assent

In the 2018-19 Federal Budget, the government proposed to remove the capital gains discount at the trust level for Managed Investment Trusts (MITs) and Attribution Managed Investment Trusts (AMITs). This was designed to prevent beneficiaries who are not entitled to the CGT discount in their own right from getting a benefit from the CGT discount applied at the trust level. The start date has now been revised from 1 July 2020 to the income year commencing on or after three months from the date of Royal Assent of the enabling legislation.

Tax Integrity – deferring the start date of proposed Division 7A amendments

Effective - income year commencing on or after Royal Assent

The Government will defer the start date of the 2018-19 Budget measure, Tax Integrity — clarifying the operation of the Division 7A integrity rule, from 1 July 2020 to the income year commencing on or after the date of Royal Assent of the enabling legislation.

The Government issued a consultation paper in October 2018 seeking stakeholder views on the proposed implementation approach for the amendments to Division 7A of the *Income Tax Assessment Act 1936*. The Government indicated that it has received valuable feedback from stakeholders which highlighted that this is a complex area of the tax law and raised implementation issues that warrant further consideration.

Delaying the start date will allow additional time to further consult with stakeholders on these issues and to refine the Government's implementation approach, including to ensure appropriate transitional arrangements so taxpayers are not unfairly prejudiced.

Superannuation – deferring the start date to reduce red tape

Effective 1 July 2021

In the 2019-20 Federal Budget, the government proposed the budget measure Superannuation — reducing red tape for superannuation funds (exempt current pension income changes). This measure aimed to simplify the process of claiming exempt current pension income in certain circumstances by allowing trustees to choose to use the proportionate method rather than the segregated method. In the 2020-21 budget, the start date has been deferred for another 12 months to 1 July 2021.

Superannuation — deferring the start date of the Retirement Income Covenant

Effective 1 July 2022

The Government is deferring 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. This will also allow finalisation of the measure to be informed by the Retirement Income Review.

Existing covenants in the SIS Act include obligations to formulate, review regularly and give effect to investment, risk management and insurance strategies, but not a retirement income strategy. Introducing a retirement income covenant will require trustees to consider the retirement income needs and preferences of their members.

Find out more

For **FirstChoice** enquiries, contact us on **13 18 36** or email contactus@colonialfirststate.com.au

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