



**FirstTech**

# Federal Budget Briefing

29 March 2022

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**Colonial  
First State**

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## Introduction

With the federal election only a couple of months away, it was no surprise to see a Budget filled with announcements that will appeal to voters – such as cost-of-living relief payments, tax cuts, improved parental leave, small business incentives, and investing in healthcare and essential services.

While superannuation was largely untouched, there were several proposed changes to both individual and business taxation.

Overall, the government focused on continuing its path to economic recovery through creating job opportunities, spending on large infrastructure projects, and encouraging business investment.

## Superannuation

### Extension of temporary reduction in superannuation minimum drawdown rates

#### From 1 July 2022

The government has announced a 12-month extension of the temporary 50% reduction in superannuation minimum drawdown rates for account-based pensions and similar products to cover the 2022-23 income year. This will apply to:

- Account-based pensions and annuities
- Transition-to-retirement pensions
- Term allocated pensions and annuities (also known as market-linked income streams).

Halving the minimum drawdown rates was originally announced as part of the response to the Coronavirus pandemic. The government stated that even though Australia has entered a period of economic recovery, there is still significant volatility in financial markets due to the ongoing impacts of Coronavirus and the war in Ukraine.

#### FirstTech comment



For the government to implement this proposal, it will only need to register a new regulation to amend the pension rules in the SIS regulations. Therefore, the government may be able to implement this change prior to the election being called. However, it's unclear at this stage whether it intends to make the change prior to calling the election or whether it only intends to make the change if re-elected.

## Status of May 2021 Federal Budget superannuation announcements

The following table summarises key superannuation announcements from the 2021-22 Federal Budget and whether the changes have been implemented or remain pending.

Announcement	Status	Effective date
Removal of work tests for personal and voluntary employer contributions for members aged 67-75	Regulations registered <sup>1</sup> and now law	1 July 2022
Requirement for members aged 67-75 to satisfy a work test (or work test exemption) to claim a deduction for a personal contribution	Change now law <sup>2</sup>	1 July 2022
Reducing the eligibility age for downsizer contributions from 65 to 60	Change now law <sup>2</sup>	1 July 2022
Removing the \$450 per month superannuation guarantee eligibility threshold	Change now law <sup>2</sup>	1 July 2022
Maximum amount of voluntary contributions that can be released under the First Home Super Saver Scheme increased from \$30,000 to \$50,000	Change now law <sup>2</sup>	1 July 2022
Two-year window to commute certain legacy complying income streams	Bill yet to be introduced	TBC
Relaxing the residency requirements for superannuation funds by: <ul style="list-style-type: none"> <li>- extending the central management and control safe harbour period from 2 years to 5 years</li> <li>- abolishing the active member test.</li> </ul>	Bill yet to be introduced	TBC

<sup>1</sup> Treasury Laws Amendment (Enhancing Superannuation Outcomes) Regulations 2022

<sup>2</sup> Treasury Laws Amendment (Enhancing Superannuation Outcomes For Australians and Helping Australian Businesses Invest) Act 2022

## Individual tax

### One-off cost of living tax offset

#### For 2021-22 income year only

The government will provide a one-off \$420 cost of living tax offset via an increase to the existing low- and middle-income tax offset (LMITO) for 2021-22. Combined with the existing LMITO, eligible low- and middle-income earners will receive a tax offset of up to \$1,500 for the 2021-22 income year.

Currently, the LMITO amount is between \$255 and \$1,080 and is available for the 2018-19, 2019-20, 2020-21 and 2021-22 financial years. There was no further announcement to extend the LMITO. Therefore, the LMITO is currently due to end after the 2021-22 financial year.

The LMITO for the 2021-22 income year will be paid from 1 July 2022 when individual taxpayers submit their tax returns for the 2021-22 income year.

The amount of offset is calculated by the ATO based on the individual's taxable income. Based on our understanding of the announcement, the table below shows the LMITO an individual can receive depending on their taxable income:

Taxable income	Existing LMITO	Proposed LMITO
\$37,000 or less	\$255	\$675
Between \$37,001 and \$48,000	\$255 plus 7.5 cents for every dollar of income above \$37,000	\$675 plus 7.5 cents for every dollar of income above \$37,000
Between \$48,001 and \$90,000	\$1,080	\$1,500
Between \$90,001 and \$126,000	\$1,080 minus 3 cents for every dollar of income above \$90,000	\$1,500 minus 3 cents for every dollar of income above \$90,000
\$126,000 or more	\$0	\$0

#### FirstTech comment



The existing and proposed LMITO are non-refundable tax offsets. This means the amount of these tax offsets can only reduce a client's tax liability to \$0, but the client can't receive a refund of any unused tax offsets. Non-refundable tax offsets can't reduce a client's Medicare Levy.

The announced \$420 increased tax offset means that for a resident individual client who is not eligible for the seniors and pensioners tax offset (SAPTO), their effective tax-free threshold for 2021-22 will increase from the current \$23,226 to \$25,436. Subject to this change being legislated, it will be important for advisers to review a client's salary sacrifice arrangement or personal deductible contribution recommendations so that a client's taxable income is not reduced below the increased effective tax-free threshold.

However, because a non-refundable tax offset can't reduce a client's Medicare Levy, a client who has income between \$23,365 (i.e. the proposed Medicare Levy low-income threshold for an individual who is not eligible for SAPTO) and \$25,436 won't be liable to pay income tax but is liable to pay Medicare Levy under this proposal.

A client doesn't need to complete anything in their tax return and the ATO will work out the amounts of this offset based on their taxable income.

The table below shows that a client with income between the existing effective tax-free threshold of \$23,226 and the increased effective tax-free threshold of \$25,436 will receive a partial tax benefit due to the fact that this one-off cost of living tax offset is not a refundable tax offset. Clients with taxable income between \$25,436 and \$126,000 will receive the full \$420 increase.

2021-22 taxable income	Total tax without the one-off cost-of-living tax offset	Total tax with the one-off cost-of-living tax offset	Tax saving under the one-off cost-of-living tax offset
\$20,000	\$0	\$0	\$0
\$23,000	\$0	\$0	\$0
\$24,000	\$147	\$0	\$147
\$25,000	\$337	\$0	\$337
\$25,436	\$420	\$0	\$420
Between \$25,436 and \$126,000	Receive the full benefit of the cost-of-living tax offset		\$420

## Increasing the Medicare Levy low-income thresholds

### Effective 1 July 2021

The government will increase the Medicare Levy low-income thresholds for singles, families, and seniors and pensioners from the 2021-2022 income year. This is a routine increase and applies retrospectively from the beginning of the financial year.

The following table compares the level of taxable income below which no Medicare Levy is payable.

Income category	2020-21	2021-22
<b>Taxpayers entitled to seniors and pensioners tax offset (SAPTO)</b>		
Individual	\$36,705	\$36,925
Married or sole parent	\$51,094	\$51,401
For each dependent child or student, add	\$3,597	\$3,619
<b>All other taxpayers</b>		
Individual	\$23,226	\$23,365
Couple / sole parent (family income)	\$39,167	\$39,402

## Coronavirus tests to be tax deductible

### Expected to be 1 July 2021

The government restated its intention to introduce legislation to ensure that Coronavirus tests (including PCR and Rapid Antigen Tests) are tax deductible when purchased for work-related purposes.

By making these tests tax deductible, it also ensures that businesses will not be subject to fringe benefits tax (FBT) on tests that are provided to employees for this purpose. This measure is expected to be applicable from the beginning of the 2021/22 tax year.

## Business tax

### Making Coronavirus business grants non-assessable non-exempt

#### Extended for 2021-22

In the 2021-22 Mid-Year Economic and Fiscal Outlook, the government extended the measure that enables payments from certain state and territory Coronavirus business support programs to be made non-assessable non-exempt (NANE) for income tax purposes from 30 June 2021 until 30 June 2022. It also expanded the measure to include Commonwealth Coronavirus business support programs until 30 June 2022.

The government has added<sup>1</sup> the following state and territory grant programs to be eligible for this treatment since the 2021-22 MYEFO:

- NSW Accommodation Support Grant
- NSW Commercial Landlord Hardship Grant
- NSW Performing Arts Relaunch Package
- NSW Festival Relaunch Package
- NSW 2022 Small Business Support Program
- Queensland 2021 COVID-19 Business Support Grant
- South Australia COVID-19 Tourism and Hospitality Support Grant
- South Australia COVID-19 Business Hardship Grant.

### Modernisation of PAYG instalment systems

#### Proposed to commence 1 January 2024

Companies will be able to choose to have their Pay As You Go (PAYG) instalments calculated based on current financial performance, extracted from business accounting software, with some tax adjustments. The aim is to support business cash flow by ensuring instalments reflect current performance.

The government will consult with affected stakeholders, tax practitioners and digital service providers to finalise the policy scope, design and specifications of this measure.

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<sup>1</sup> *Income Tax Assessment (Eligible State and Territory COVID-19 Economic Recovery Grant Programs) Declaration 2020* lists the eligible grants

## Small business skills and training boost

### Effective 29 March 2022 (Budget night)

The government has announced that it will introduce a skills and training boost to support small businesses to train and upskill their employees. The boost will apply to eligible expenditure incurred from 7:30pm (AEDT) on 29 March 2022 (Budget night) until 30 June 2024.

Small businesses (with aggregated annual turnover of less than \$50 million) will be able to deduct an additional 20% of expenditure incurred on external training courses provided to their employees. The external training courses will need to be provided to employees in Australia or online, and delivered by entities registered in Australia. Some exclusions will apply, such as for in-house or on-the-job training and expenditure on external training courses for persons other than employees.

The boost for eligible expenditure incurred by 30 June 2022 will be claimed in tax returns for the following income year. The boost for eligible expenditure incurred between 1 July 2022 and 30 June 2024 will be included in the income year in which the expenditure is incurred.

## Small business technology investment boost

### From 7:30pm on 29 March 2022 until 30 June 2023

The government has announced that it will introduce a technology investment boost to support digital adoption by small businesses. The boost will apply to eligible expenditure incurred from 7:30pm (AEDT) on 29 March 2022 (Budget night) until 30 June 2023.

Small businesses (with aggregated annual turnover of less than \$50 million) will be able to deduct an additional 20% of eligible expenditure incurred on business expenses and depreciating assets that support their digital adoption, such as portable payment devices, cyber security systems or subscriptions to cloud-based services.

An annual cap will apply in each qualifying income year so that expenditure up to \$100,000 will be eligible for the boost.

For example, an eligible small business could spend \$100,000 on eligible expenses and this may entitle them to a tax deduction of \$120,000 including the 20% boost. The boost for eligible expenditure incurred between 29 March 2022 and 30 June 2022 will be claimed in tax returns for the following income year. Eligible expenditure incurred in the 2022-23 income year will be claimable in the tax year it's incurred.

## Social security

### \$250 Cost of Living Payment

#### Effective April 2022

The government will provide a once-off Cost-of-Living Payment of \$250 in April 2022 to eligible recipients of the following payments and to concession card holders:

- Age Pension
- Disability Support Pension
- Parenting Payment
- Carer Payment
- Carer Allowance (if not in receipt of a primary income support payment)
- Jobseeker Payment
- Youth Allowance
- Austudy and Abstudy Living Allowance
- Double Orphan Pension
- Special Benefit

- Farm Household Allowance
- Pensioner Concession Card (PCC) holders
- Commonwealth Seniors Health Card holders
- Eligible Veterans' Affairs payment recipients and Veteran Gold card holders.

The payments are exempt from taxation and won't count as income support for the purposes of any income support payment. A person can only receive one economic support payment, even if they are eligible under two or more of the categories outlined above. The payment will only be available to Australian residents.

### FirstTech comment



Self-funded retirees who hold a Commonwealth Seniors Health Card (CSHC) will be eligible to receive the Cost-of-Living Payment. The annual income limit for the Commonwealth Seniors Health Card is currently \$92,416 combined for a couple and \$57,761 for singles.

## Enhanced Paid Parental Leave

### Effective no later than 1 March 2023

The Paid Parental Leave (PPL) scheme is to be enhanced by integrating Parental Leave Pay and Dad and Partner Pay into a single scheme of up to 20 weeks leave, which can be shared between eligible parents. The aim of the enhancements is to provide more flexibility for families to decide how to best manage work and care.

The enhanced PPL scheme can be taken any time within two years of the birth or adoption of their child.

The existing PPL scheme comprised two payments:

- Parental Leave Pay – paid up to 18 weeks at a rate based on the national minimum wage. This payment is currently available to the primary carer who is either the natural mother, the initial primary carer of an adopted child, or another carer under exceptional circumstances.
- Dad and Partner Pay – paid up to two weeks at a rate based on the national minimum wage to fathers and partners.

### FirstTech comment



This enhancement provides the opportunity for both members of a couple to have some time on PPL as the primary carer (up to a maximum of 20 weeks between them). It also allows single parents to access up to 20 weeks of PPL (extended from 18 weeks).

The income test will also be broadened to include a household income eligibility test. Currently, mothers who have adjusted taxable income up to \$151,350 can access PPL even if their partner earns a high income. However, a mother who earns more than \$151,350 has no entitlement to PPL even if their partner has no or low income.

The income test will be broadened to include a household income threshold of \$350,000 a year.

## **Extension of suspension period for partner employment income – pensions and Pensioner Concession Card**

**Effective 1 July 2021**

The pension suspension period and Pensioner Concession Card access period will be extended to two years for pensioners that receive a nil payment due to their partner's employment income or working hours, where this has also resulted in the suspension of their partner's pension for up to two years.

## **20 free Rapid Antigen Tests (RATs) for concession card holders**

**Effective until 31 July 2022**

The Rapid Antigen Test Concessional Access Program will deliver up to 20 free RATs over seven months until 31 July 2022 to all Australians with a concession card, including Department of Veterans' Affairs card holders.

## **Aged Care**

### **Funding to implement reforms in response to the Royal Commission**

**Effective 2021/22 onwards**

The government will provide \$468.3 million over five years from 2021-22 to further implement the government's response to the Royal Commission into Aged Care Quality and Safety. This funding is to continue ongoing reforms announced in the 2021-22 Federal Budget.

This will include spending in five key areas:

- Home care
- Residential Aged Care Services and Sustainability
- Residential Aged Care Quality and Safety
- Workforce
- Governance.

### **Aged Care Coronavirus response package**

**Effective 2021/22 onwards**

The government will provide additional funding to support older Australians in the aged care sector with managing the impacts of the Coronavirus pandemic. This includes funding for the Aged Care Preparedness program that supports aged care providers to manage and prevent outbreaks.

## **Other**

### **Expansion of Home Guarantee Scheme**

**Effective 1 July 2022**

The Home Guarantee Scheme is being expanded to help more first home buyers purchase their first home. In addition, a new Regional Home Guarantee Scheme for non-first home buyers is being introduced.

Under the schemes, the government guarantees part of a home loan. This allows the purchase of a home with a smaller deposit without needing to pay Lender's Mortgage Insurance.

Under the expanded Home Guarantee Scheme, the government will make available:

- 35,000 guarantees each year (up from the current 10,000) from 1 July 2022 under the First Home Guarantee. This supports eligible first homebuyers to purchase a new or existing home with a deposit as low as 5%.
- 10,000 guarantees each year from 1 October 2022 to 30 June 2025 under a new Regional Home Guarantee. This supports eligible homebuyers, including non-first home buyers and permanent residents, to purchase or construct a new home in regional areas.
- 5,000 guarantees each year from 1 July 2022 to 30 June 2025 to expand the Family Home Guarantee announced in last year's Budget. This scheme assists eligible single parents with children to either buy their first home or re-enter the housing market with a deposit as little as 2%.

### FirstTech comment



The Home Guarantee Scheme can be used in conjunction with other government programs like the First Home Super Saver Scheme, HomeBuilder grant or state and territory First Home Owner Grants, and stamp duty concessions.

## Expanding access and further reducing red tape for employee share schemes

### Effective date not announced

The government has announced that it will expand access to employee share schemes and further reduce red tape so that employees at all levels can directly share in the business growth they help to generate.

Where employers make larger offers in connection with employee share schemes in unlisted companies, participants can invest up to:

- \$30,000 per participant per year, accruable for unexercised options for up to five years, plus 70% of dividends and cash bonuses
- any amount, if it would allow them to immediately take advantage of a planned sale or listing of the company to sell their purchased interests at a profit.

The government has said it will also remove regulatory requirements for offers to independent contractors, where they do not have to pay for interests.

## Temporary reduction in fuel excise

### From 12.01am on 30 March to 11.59pm on 28 September 2022

The government has announced that it will reduce the fuel excise (and excise-equivalent customs duty rate) that applies to petrol and diesel by 50% for six months. The excise (and excise-equivalent customs duty rate) that applies to all other fuel and petroleum-based products (including LPG and Biodiesel), except aviation fuels, will also be reduced by 50% for six months.

The government says this will result in a reduction in excise on petrol and diesel from 44.2 cents per litre to 22.1 cents per litre, which result in total savings (including GST savings) per tank of fuel of:

- \$9.72 for a small hatchback with a 40 litre petrol tank
- \$14.59 for a mid-sized SUV with a 60 litre petrol tank
- \$19.25 for a large 4WD with an 80 litre petrol tank.

## FirstTech comment



While the reduction in fuel excise applies from 12.01 on 30 March 2022, it will take several weeks for the full reduction to flow through because the excise will have already been charged on existing fuel stocks.

## Safety net threshold lowered for the Pharmaceutical Benefits Scheme

### Effective 1 July 2022

The Pharmaceutical Benefits Scheme (PBS) safety net threshold will be lowered, which will allow patients to reach the safety net sooner. Concessional patients will require approximately 12 fewer scripts and general patients will require approximately two fewer scripts.

On reaching the PBS safety net, concessional patients receive their PBS medicines at no cost for the rest of the calendar year and general patients receive their PBS medicines at the concessional co-payment rate, which is currently \$6.80 per prescription.

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