

Challenger

Federal Budget Report 2020-21



What it means for you

Changes to super, the bringing forward of tax cuts, and two lump sum payments to those on the Age Pension are just some of the Government's proposed measures from the big spending 2020-21 Budget - released by Treasurer Josh Frydenberg on Tuesday 6 October 2020.

There's no doubt that this year's Budget holds particular importance in light of the events of 2020. And whilst the main focus of the proposed measures are towards creating more jobs to stimulate the economy after a record deficit, there's plenty in the Budget for anyone who's retired (or planning retirement) to consider too. We've put together this report to make sure you don't miss any of the essential information.

It's worth noting that these proposed measures aren't law yet – and could change.

Summary

Age Pension

- The Government proposes to provide **two \$250 economic support payments** to be made from early December 2020 and early March 2021 to eligible recipients.

Superannuation

- The Government will implement a **'Your Future, Your Super'** package to improve outcomes for super fund members, comprising of four key initiatives:
 - Your super follows you when you change jobs.
 - By 1 July 2021, a new interactive online 'YourSuper' comparison tool will be available to help you decide which MySuper product best meets your requirements.
 - By 1 July 2021, MySuper products will be subject to an annual performance test and if they're underperforming, they'll be prohibited from receiving new members.
 - A strengthening of obligations on super trustees to act in the "best financial interests" of members.

Taxation

- The Government will bring forward the **legislated increase in the 19% and 32.5% income tax thresholds** from 1 July 2022 to 1 July 2020.

Aged care

- The Government will provide an **additional 23,000 home care packages** over four years from 2020-21 across all package levels.

Centrelink/Department of Veterans Affairs (DVA)

Economic support payments

The Government proposes to provide two \$250 economic support payments to be made from early December 2020 and early March 2021 to eligible recipients of the following payments and concession cards:

- Age Pension
- Disability Support Pension
- Carer Payment
- Carer Allowance*
- Pensioner Concession Card (PCC)* - includes clients who have an automatic PCC because they lost the Age Pension due to the assets test changes on 1 January 2017
- Commonwealth Seniors Health Card
- Eligible DVA payments
- DVA Gold Card
- DVA Seniors Card
- Family Tax Benefit, including Double Orphan Pension*

*Only if you are not getting a primary income support payment (i.e. to avoid double \$250 payments to one individual).

If you are eligible for one of the above payments/concession cards on 27 November 2020, you will be eligible for the December 2020 payment. If you are eligible for one of the above payments/concession cards on 26 February 2021, you will be eligible for the March 2021 payment.

These economic support payments are exempt from taxation and will not count as income for the purposes of any income support payment.

Pension Loan Scheme (PLS)

The Government proposes to deliver customer experience improvements for the PLS, including:

- a loan calculator to help people test their eligibility and estimate loan balances;
- electronic loan repayments;
- new online services for customers to make changes to loan terms and print or request itemised statements;
- improved access to specialist staff when customers call;

- a joint online claim for partnered customers with more relevant questions; and
- the ability for customers to complete regular loan reviews online.

This is expected to start from the end of June 2021.

Veterans

The Government proposes to simplify payment arrangements for veterans from 20 September 2022. This includes:

- removing the DVA Disability Pension rent test for clients who receive Rent Assistance (RA) from DVA; and
- the exemption of DVA Disability Pensions from the income test for Centrelink income support payments, which means the Defence Force Income Support Allowance (DFISA) paid by the DVA to Centrelink clients is no longer needed.

Digital skills for older Australians

The Government will provide the Be Connected Program until 2023-24 to support Australians aged over 50 to gain the skills they need to participate in the digital economy.

Pharmaceutical Benefits Scheme (PBS)

The Government has proposed a few measures regarding the PBS from 2020-21, including:

- implementing a revised and improved approach to the administration of PBS rebate receipts associated with medicines that have Special Pricing Arrangements; and
- providing over four years new and amended listings on the Pharmaceutical Benefits Scheme (PBS) and the Repatriation Pharmaceutical Benefits Scheme (RPBS).

The PBS is available for clients receiving the Pensioner Concession Card, Health Care Card, Low Income Health Care Card and Commonwealth Seniors Health Card.

If you're overseas

The Government will provide additional support to vulnerable Australian citizens whose return to Australia has been impacted by the restrictions arising from COVID-19. The support includes loans to eligible Australians overseas to cover costs of temporary accommodation, daily living expenses and tickets for commercial flights.

For any retirees stuck overseas or with children overseas, they can register with DFAT via covid19.dfat.gov.au if they need consular assistance.

Superannuation

Superannuation reforms

The Government will implement a 'Your Future, Your Super' package to improve outcomes for superannuation fund members. These reforms, commencing 1 July 2021, are broken down into the following four areas:

1. Your super follows you when you change jobs

Your existing superannuation account will be 'stapled' to you to avoid the creation of a new superannuation account if you change employment. If you have an existing superannuation account, your new employer will pay super into that existing account, unless you select another fund.

Employers will be able to obtain information about a new employee's existing superannuation fund from the Australian Taxation Office. A second phase will be introduced from 1 July 2022 where the ATO will enable payroll systems to obtain employee superannuation details to eliminate the need for manual entry.

Where a new employee does not have an existing superannuation account and does not nominate a superannuation fund, the employer will pay the employee's superannuation into the employer's default superannuation fund.

2. Comparing fund performance

By 1 July 2021, a new interactive online YourSuper comparison tool will be available to assist you when deciding which MySuper product best meets your requirements, by being able to compare the performance and fees of all MySuper products.

3. Holding funds to account for underperformance

From 1 July 2021 MySuper products will be subject to an annual performance test conducted by the Australian Prudential Regulation Authority based on the net investment performance, with products that have underperformed over two consecutive annual tests prohibited from receiving new members until a further annual test that shows they are no longer underperforming. The annual performance test will be extended to other trustee directed APRA regulated superannuation products from 1 July 2022.

4. Increasing transparency and accountability

There will be improved transparency and accountability of superannuation funds by strengthening obligations on superannuation trustees to act in the "best financial interests" of members and ensure their actions are consistent with members' retirement savings being maximised.

Defer the start date of the Retirement Income Covenant

The Government has confirmed its deferral of 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 during COVID-19, and for the measure to be informed by the Retirement Income Review.

Facilitating the closure of eligible rollover funds

In response to requests from superannuation funds to provide additional time and flexibility for superannuation funds to transfer amounts to the ATO, the Government will amend the Treasury Laws Amendment (Reuniting More Superannuation) Bill 2020 to defer implementation dates of the closure of eligible rollover funds.

Previously announced COVID-19 Response Package

Temporary access to superannuation

To support individuals affected by the financial impacts of COVID-19, eligible Australian and New Zealand citizens and permanent residents were able to access up to \$10,000 of their superannuation before 1 July 2020 and can access a further \$10,000 from 1 July 2020 until 31 December 2020.

Temporarily reducing super minimum drawdown rates

The Government has halved the superannuation minimum drawdown requirements for account-based pensions and similar products for the 2019-20 and 2020-21 income years.

Revised start dates for Tax and Superannuation measures

The start date for the 2018-19 Budget measure to increasing the maximum number of allowable members in SMSFs and small APRA funds from four to six has been revised from 1 July 2019 to the date of Royal Assent of the enabling legislation.

The start date for the 2019-20 Budget measure 'Superannuation - reducing red tape for superannuation funds', which would allow SMSF trustees to choose their preferred method of calculating ECPI, and remove a redundant requirement to obtain an actuarial certificate using the proportionate method, where all members of the fund are fully in the retirement phase for all of the income year, has been revised from 1 July 2020 to 1 July 2021.

The start date for the 2015-16 Budget measure to allow the ATO to pay lost and unclaimed superannuation amounts directly to New Zealand KiwiSaver accounts, has been revised from 1 July 2016 to six months after the date of Royal Assent of the enabling legislation.

Taxation

Bringing forward the personal income tax cuts from 1 July 2022

The Government will bring forward the legislated increase in the 19% and 32.5% income tax thresholds from 1 July 2022 to 1 July 2020.

Table 1: Proposed personal income tax thresholds from 1 July 2020

2020-21 marginal tax rate	2020-21 tax bracket (current)	2020-21 tax bracket (proposed)
Nil	Up to \$18,200	Up to \$18,200
19%	\$18,201 - \$37,000	\$18,201 - \$45,000
32.5%	\$37,001 - \$90,000	\$45,001 - \$120,000
37%	\$90,001 - \$180,000	\$120,001 - \$180,000
45%	\$180,000+	\$180,000+

The already legislated reduction of the 32.5% marginal tax rate to 30% and removal of 37% personal income tax bracket from 1 July 2024 remains unchanged.

Table 2: 2024-25 personal income tax rates and thresholds

2024-25 marginal tax rate	2024-25 tax bracket
Nil	Up to \$18,200
19%	\$18,201 - \$45,000
30%	\$45,001 - \$200,000
45%	\$200,000+

Bringing forward the increase of Low Income Tax Offset from 1 July 2022

The non-refundable Low Income Tax Offset (LITO) was legislated to increase from the current \$445 to \$700, starting from 1 July 2022. The legislated increase is proposed to be brought forward to 1 July 2020. As illustrated in the following table, the increased LITO will reduce for taxable income above \$37,500 per annum and will cut out for taxable income above \$66,667 per annum.

Table 3: Eligibility of LITO

Taxable income	Tax offset
Nil to \$37,500	Up to \$700
\$37,500 - \$45,000	\$700 – [(taxable income - \$37,500) x 5 cents]
\$45,001 - \$66,667	\$325 – [(taxable income - \$45,000) x 1.5 cents]
\$66,667+	Nil

Low and Middle Income Tax Offset unchanged in the 2020-21 financial year

The Government stated that it will retain the Low and Middle Income Tax Offset (LMITO) in the 2020-21 financial year, but will not apply for 2021-22 and future years.

Table 4: Eligibility for LMITO

Taxable income	Tax offset
Nil to \$37,000	Up to \$255
\$37,001 - \$47,999	\$255 + [(taxable income - \$37,000) x 7.5 cents]
\$48,000 - \$89,999	\$1,080
\$90,000 - \$126,000	\$1,080 – [(taxable income - \$90,000) x 3 cents]
\$126,000+	Nil

The LMITO will continue to be received on assessment after the individual lodges their tax return.

Increase to Medicare Levy low-income thresholds

The 2019-20 financial year Medicare Levy low-income thresholds will be indexed for individuals and families.

Table 5: Medicare Levy thresholds

	2019-20	2018-19
Single	\$22,801	\$22,398
Single eligible for SAPTO	\$36,056	\$35,418
Family	\$38,474	\$37,794
Couple eligible for SAPTO	\$50,191	\$49,304
Additional threshold for each dependent child	\$3,533	\$3,471

Capital Gains Tax exemption for granny flat arrangement

Currently, Taxation Ruling 2006/14 outlines the ATO's views on potential Capital Gains Tax (CGT) implications upon a taxpayer entering, surrendering or ending life interest or granny flat types of arrangements. CGT consequences are currently an impediment to the creation of formal and legally enforceable granny flat arrangements. When faced with a potentially significant CGT liability, families often opt for informal arrangements, which can lead to financial abuse and exploitation in the event that the family relationship breaks down.

The Government will provide a targeted CGT exemption for granny flat arrangements where there is a formal written agreement. This measure is intended to remove these CGT impediments, reducing the risk of abuse to vulnerable Australians. The measure will have effect from the first income year after the date of Royal Assent of the enabling legislation.

Aged care

Additional home care packages and aged care funding

The Government will provide an additional 23,000 home care packages over four years from 2020-21 across all package levels.

The Government will also provide additional funding from 2020-21 to improve transparency and regulatory standards in aged care, including:

- continuing to reform residential aged care funding under the new Australian National Aged Care Classification system;
- maintaining the capacity of the Aged Care Quality and Safety Commission in its ongoing regulation and compliance of the aged care sector; and
- supporting the Department of Health and the Aged Care Quality and Safety Commission to respond to requests from the Royal Commission into Aged Care Quality and Safety.

Aged care COVID-19 Response Package

The Government will provide the following support for older Australians throughout the COVID-19 pandemic:

- continuing the COVID supplement in 2020-21 to assist all Commonwealth-funded residential aged care providers and home care providers with the cost of operating during the COVID-19 pandemic;
- extending the Workforce Retention Bonus Payment for two years from 2020-21 to support the direct care workforce;
- providing additional funding in 2020-21 to support residents of aged care facilities who temporarily leave care to live with their families (Emergency Leave); and
- providing additional funding in 2020-21 to support the operation of the Victorian Aged Care Response Centre.

Want to know more about these or other measures announced in this year's Federal Budget?

Get in touch with your financial adviser – they'll be happy to talk everything through with you. Or [contact our friendly Challenger team](#) (details below).

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