Money Insights Budget 2020-21

Special report
7 October 2020

On 6 October, Federal Treasurer Josh Frydenberg handed down his second Budget, unveiling an economic recovery plan for Australia. The plan intends to grow the economy, create jobs and secure Australia's future.

The Budget commits additional support to families, business owners and communities as they recover from the COVID-19 pandemic. It includes personal tax cuts, additional small business tax concessions, additional cash payments to Pensioners and further funding for the aged care sector.

It is important to note; the Budget announcements are still only proposed at this stage and to be legislated. Changes can also be made prior to these proposals becoming law.

Tax

Personal income tax cuts

The Budget includes tax cuts for most workers, primarily by bringing forward income tax cuts scheduled for the middle of 2022 while retaining the Low and Middle Income Tax Offset (LMITO), which was due to be removed with the commencement of stage two of the income tax plan, for 2020-21. The change will provide immediate tax relief to individuals and support the economic recovery and jobs by boosting consumption.

The following two tables summarise the changes to the income tax brackets as well as the Low Income Tax offset (LITO) for the 2020-21 financial year.

Changes to personal income tax brackets

Current tax rates (2020-21 FY)		Proposed changes from 1 July 2020	
Taxable income	**Rate**	**Taxable income**	**Rate**
$0 - $18,200	0%	$0 - $18,200	0%
$18,201 - $37,000	19% over $18,200	$18,201 - $45,000	19% over $18,200
$37,001 - $90,000	$3,572 + 32.5% over $37,000	$45,001 - $120,000	$5,092 + 32.5% over $45,000
$90,001 - $180,000	$20,797 + 37% over $90,000	$120,001 - $180,000	$29,467 + 37% over $120,000
$180,001+	$54,097 + 45% over $180,000	$180,001+	$51,667 + 45% over $180,000

Bringing forward changes to the Low Income Tax Offset (LITO)

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.

Current LITO			Proposed changes from 1 July 2020		
Taxable income (TI)	**Reduction in offset (RI)**	**Maximum offset**	**Taxable income (TI)**	**Reduction in offset (RI)**	**Maximum offset**
$0 -$37,000	Nil	$445	$0 - $37,500	Nil	$700
$37,001 - $66,667	(TI - $37,000) x 0.015	$445 – RI	$37,501 - $45,000	(TI - $37,500) x **0.05**	$700 – RI
$66,667	$445	Nil	$45,001 - $66,667	Nil	$325 – RI
			$66,667	$700	Nil

Proposed tax savings

Taxable income	Net tax payable	Net tax payable incorporating proposed changed	Tax savings for 2020-21	Tax savings for 2021-22
$20,000	$0	$0	$0	$0
$30,000	$2,142	$1,887	$255	$0
$40,000	$4,467	$3,887	$580	$100
$50,000	$7,467	$6,387	$1,080	$0
$60,000	$11,067	$9,987	$1,080	$0
$70,000	$14,617	$13,537	$1,080	$0
$80,000	$18,067	$16,987	$1,080	$0
$90,000	$21,517	$20,437	$1,080	$0
$100,000	$25,717	$24,187	$1,530	$750
$110,000	$29,917	$27,937	$1,980	$1,500
$120,000	$34,117	$31,687	$2,430	$2,250
$130,000	$38,197	$35,767	$2,430	$2,430
$140,000	$42,097	$39,667	$2,430	$2,430
$150,000	$45,997	$43,567	$2,430	$2,430
$160,000	$49,897	$47,467	$2,430	$2,430
$170,000	$53,797	$51,367	$2,430	$2,430

$180,000	$57,697	$55,267	$2,430	$2,430
$190,000	$62,397	$59,967	$2,430	$2,430
$200,000	$67,097	$64,667	$2,430	$2,430
$210,000	$71,797	$69,367	$2,430	$2,430
$220,000	$76,497	$74,067	$2,430	$2,430
$230,000	$81,197	$78,767	$2,430	$2,430
$240,000	$85,897	$83,467	$2,430	$2,430
$250,000	$90,597	$88,167	$2,430	$2,430

Tax rates for 2024-25 and future years

The Government has legislated the abolition of the 37 per cent tax bracket, and the reduction of the 32.5 percent marginal tax rate to 30 per cent, from 2024-25.

Current tax rates (2024-25 FY)	
Taxable income	**Rate**
$0 - $18,200	0%
$18,201 - $45,000	19% over $18,200
$45,001 - $200,000	$5,092 + 30% over $45,000
$200,001+	$51,592 + 45% over $200,000

Increasing the Medicare Levy low-income thresholds

Effective 1 July 2019

The Government will increase the Medicare levy low-income thresholds for singles, families, seniors and pensioners from the 2019-20 financial year.

The following table compares the level of taxable income below which no Medicare levy becomes payable.

Taxpayers (not entitled to seniors and pensioner tax offset)	2018-19	2019-20
Single	$22,398	$22,801
Couple or sole parent (family income)	$37,794	$38.474
Tax payers entitled to seniors and pensioners tax offset		
Single	$35,418	$36,056
Couple or sole parent (family income)	$49,304	$50,191
For each dependent child or student, add:	$3,471	$3,533

Removing Capital Gains Tax (CGT) for granny flat arrangements

The Government proposes a CGT exemption for granny flat arrangements where there is a formal written agreement in place. The changes mean 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 disabilities. The CGT exemption will only apply to agreements that are entered into because of family relationships or other personal ties and will not apply to commercial rental arrangements.

This measure is proposed to take effect from 1 July 2021.

Businesses

The Government has announced several measures to support businesses during the COVID-19 recovery to encourage investment and promote opportunities to retain and create jobs.

Temporary outright deduction for capital assets

From 7:30pm (AEDT) on 6 October 2020 until 30 June 2022, businesses with aggregated annual turnover up to $5 billion will be able to deduct the full cost of eligible depreciable assets of any value in the year they are installed. The cost of improvements to existing eligible depreciable assets made during this period can also be fully deducted.

Temporary loss carry-back

Companies with turnover up to $5 billion will be able to offset losses against previous taxed profits on which tax has been paid, to generate a refundable tax offset in the year in which the loss is made. Currently, companies are required to carry losses forward to offset profits in future years.

Losses incurred up to 2021-22 can be carried back against profits made in or after 2018 - 19. Eligible companies may elect to receive a tax refund when they lodge their 2020-21 and 2021 - 22 tax returns.

Small business tax concessions extensions

The small business entity turnover threshold to access a range of small business tax concessions has been increased from $10 million to $50 million. For the first time, a range of up to 10 further small business tax concessions will be available and implemented in three phases.

JobMaker Hiring Credit

The Government will support jobs growth for those aged 35 years and under by introducing a new credit for businesses that take on additional employees. From 7 October 2020, businesses will receive a 'JobMaker Hiring Credit' for each new job they create over the next 12 months for which they hire an employee aged 16 to 35. Employers will receive for up to 12 months:

- $200 a week if they hire an eligible young person aged 16 to 29 years; or
- $100 a week if they hire an eligible young person aged 30 to 35 years.

A maximum amount of $10,400 is available per additional new position created. To be eligible, employees must have worked a minimum of 20 hours per week, averaged over a quarter and received 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.

Fringe Benefits Tax

Treasurer Josh Frydenberg announced on Friday, October 2 that a Fringe Benefit Tax (FBT) exemption will be available for employers providing retraining and reskilling for employees who are redeployed to a different role in the business. The exemption will apply from the date of announcement.

Currently, FBT is payable if an employer provides training to its employees that is not sufficiently connected to their current employment. For example, a business that retains their sale assistant in web design to redeploy them to an online marketing role in the business, can get hit with FBT.

This FBT exemption will only apply to employer-provided retraining and does not include programs provided through salary packaging or government-supported places at universities.

Superannuation

Your Future, Your Super reforms

The Government will implement a range of reforms to improve outcomes for superannuation fund members. Commencing 1 July 2021 these reforms focus on the following:

- **Comparing fund performance.** A new online comparison tool will be developed by the Australian Tax Office allowing new employees to select a superannuation product by using a performance and fee-based comparison for a range of MySuper products.
- **Your super follows you when changing jobs.** An existing superannuation account will be 'stapled' to a member, avoiding the creation of a new account when changing their employment. 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.
- **Holding funds to account for underperformance.** The Australian Prudential Regulation Authority (APRA) will conduct benchmarking tests on the net investment performance of MySuper products. Products that have underperformed for over two consecutive annual tests will be prohibited from receiving new members until a further annual test shows they are no longer underperforming.
- **Increasing transparency and accountability.** There will be improved transparency and accountability of superannuation funds by strengthening obligations on superannuation trustees to ensure their actions are consistent with members' retirement savings being maximised.

Social security

Economic support payments

To assist households in the lead up to Christmas and in the new year, two separate $250 Economic Support Payments will be provided to eligible Australians. To qualify, individuals must be living in Australia and receive one of the following payments, or hold one of the following health care cards, on 27 November 2020 and/or 26 February 2021:

- Age Pension
- Disability Support Pension
- Carer Payment
- Family Tax Benefit, including Double Orphan Pension (not in receipt of a primary income support payment)
- Carer Allowance
- Pensioner Concession Card (PCC) holders (not in receipt of a primary income support payment)
- Commonwealth Seniors Health Card holders
- Eligible Veterans' Affairs payment recipients and concession card holders

The payments will be made progressively from 30 November 2020 and 1 March 2021. The payments are also exempt from taxation and will not count as income for the purposes of any income support payment.

Youth Allowance and ABSTUDY

The Government will make a temporary change to the criteria used to determine independence for Youth Allowance and ABSTUDY from 1 January 2021. Each year thousands of young Australians take a gap year to meet the workforce participation criteria which requires them to work 30 hours per week for at least 18 months within a two-year period to be deemed independent of their parents and thus not subject to the Parental Income Test.

From 1 January 2021, all Youth Allowance and ABSTUDY applicants will automatically be deemed to have worked over the six-month period 25 March 2020 to 24 September 2020. This will assist young people who sought work while on a gap year in 2020 and means they only need to meet the balance of the workforce participation criteria.

Paid Parental Leave

An alternative Paid Parental Leave work test period will be introduced for a limited time. Under normal circumstances, parents must have worked 10 of the 13 months prior to the birth or adoption of their child to qualify for Paid Parental Leave but that will be temporarily extended to 10 months out of the 20 months prior for births and adoptions that occur between 22 March 2020 and 31 March 2021. This measure is estimated to allow about 9,000 mothers to regain eligibility for Parental Leave Pay and allow a further 3,500 people to claim Dad and Partner Pay.

Other

Additional aged care funding

The Government will provide $2 billion over four years from 2020-21 to further support older Australians accessing aged care. Some of the proposals include:

- an additional 23,000 home care packages across all four home care package levels bringing the total number of packages to around 185,500 in 2021
- improved operation of the My Aged Care system
- additional dementia services and training programs

The Government will provide additional funding in the 2020-21 year to extend the reporting date of the Royal Commission into Aged Care Quality and Safety from 12 November 2020 to 26 February 2021, following the suspension of hearings, workshops and group consultations because of the COVID-19 pandemic.

Further information can be found in the press releases of 30 September and 1 October 2020 issued by the Minister for Aged Care and Senior Australians.

Wage subsidy for new apprentices

The Government will provide a capped 50 percent wage subsidy to businesses who take on a new Australian apprentice from 5 October 2020 to 30 September 2021. This subsidy is available to employers of any size or industry, however the following caps apply:

- it is limited to 100,000 new apprentices or trainees in total; and
- the 50 percent subsidy will be limited to $7,000 per quarter (i.e. $28,000 per annum).

Additional 10,000 places for the First Home Loan Deposit Scheme

The Government will add an additional 10,000 places from 6 October 2020 to support the purchase of a new home or a newly built home. The additional guarantees will be available until 30 June 2021.

What is the First Home Loan Deposit Scheme?

The Federal Government's First Home Loan Deposit Scheme (Scheme) came into effect from 1 January 2020. The Scheme aims to help first home buyers purchase their first home with as little as 5 percent deposit without needing to pay for lenders mortgage insurance (LMI). The Government provides a guarantee to the difference between the first home buyer's deposit and 20 percent of the value of the property. As a result, the lender will then waive the requirement for the first home buyer to pay for LMI.

It's important to note that the Scheme has a number of upfront and ongoing eligibility requirements such as a maximum purchase price cap which varies depending on the state or territory where the property is located. There is also an income test and a requirement to move in and live in the property within six months of the date of settlement or the date an occupancy certificate is issued.

Infrastructure spending to drive jobs

New and accelerated infrastructure projects will support additional jobs, boosting productivity and delivering long term benefits for Australians. There will be key investments across all states and territories including:

- $603 million for the New England Highway in New South Wales
- $360 million for the Newcastle Inner City Bypass between Rankin Park and Jesmond in New South Wales
- $120 million for the Prospect Highway Upgrade in New South Wales
- $491 million for the Coffs Harbour Bypass in New South Wales
- $528 million for the Shepparton and Warrnambool Rail Line Upgrades in Victoria
- $750 million for Stage 1 of the Coomera Connector (Coomera to Nerang) in Queensland
- $88 million for the Reid Highway Interchange with West Swan Road in Western Australia
- $200 million for the Hahndorf Township Improvements and Access Upgrade in South Australia
- $150 million for the Midway Point Causeway (including McGees Bridge) and Sorell Causeway as part of the Hobart to Sorell Roads of Strategic Importance corridor in Tasmania
- $120 million to upgrade the Carpentaria Highway in the Northern Territory
- $88 million for the Molonglo River Bridge in the ACT

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