CWM's 2021-22
Federal Budget Summary

..... and what it means for you.

CORNISH
WEALTH MANAGEMENT

https://perthfinancialplanning.com.au

Overview

The 2021 Federal Budget, delivered on 11 May 2021, is likely to be the last Budget before the next Federal Election is held. As such, the Budget was designed to keep the electorate favourably disposed towards the incumbent government. Everyone is a 'winner'.

Some of the key statistics coming from the Budget include:

- The underlying deficit for 2020-21 is forecast to be $161 billion (that is 161,000 million).
- Gross debt will surpass a trillion dollars by 2023 (that is one million million, or $40,000 per man, woman and child in Australia).
- An additional $15bn for road, rail and community infrastructure projects. Much of this will flow through to businesses providing services, and to those seeking work in the sector.
- A provision for $1.2bn to be invested in Australia's 'digital future'.
- A further $18bn of funding over the next four years to fund significant improvements in the aged care sector.
- A further $1.7bn investment in child-care.

This Budget Summary is not designed to cover all aspects of the Federal Budget. It is solely focused on the key financial planning areas which relate to our clients – superannuation, taxation and social security.

Key proposals of relevance include:

- Removing the work test for non-concessional and salary sacrifice contributions – **this is very significant for people aged 67 to 74 as it allows more contributions to go into super.**
- Reducing the eligibility age for downsizer contributions into superannuation
- Increases in the amount of super savings available to first home buyers
- Additional investment into aged care

Please note, all the announcements still need to pass through Parliament; until then they can be viewed as merely a statement of intent. In addition, the devil is always in the detail, and the details aren't yet fully known.

Contents

Superannuation & Pensions

Repealing the work-test and extending the bring forward provisions

From 1 July 2022, individuals aged 67 to 74 will no longer need to meet the 'work test' to make voluntary contributions into superannuation. Voluntary contributions include non-concessional contributions.

Individuals aged 65 to 74 will also be able to use the non-concessional bring-forward provisions subject to the available contribution caps and meeting the total super balance criteria. Currently you must be under 65 to use the bring -forward.

COMMENT: This is a significant development for those already retired and in this age bracket. The work test, (work 40 hours in any 30 day period) was a major impediment to anyone over 65 being able to contribute more money into superannuation.

Downsizer contributions eligibility age lowered

From 1 July 2022, the eligibility age to make a downsizer contribution will be lowered from 65 to age 60.

A downsizer contribution is a contribution made with funds from the sale of a primary residence which has been owned for 10 or more years. The contribution can be up to $300,000 ($600,000 for a couple) and serves as an additional avenue to get more funds into the superannuation environment.

COMMENT: A downsizer contribution must be made within 90 days of receiving the sale proceeds. As such this will be welcome news for those who happen to sell a house between the ages of 60 and 65.

Removal $450 per month threshold for SG

From 1 July 2022, employees earning less than $450 per month will now have the superannuation guarantee paid by their employers.

COMMENT: A common sense development.

First Home Super Saver Scheme (FHSSS)

From 1 July 2022, the maximum releasable amount of voluntary concessional and non-concessional contributions under the FHSSS will increase from $30,000 to $50,000.

COMMENT: An eligible person can apply to have a maximum of $15,000 of their voluntary contributions from any one financial year included in the amount that may be released. The Government has not announced an increase to the $15,000 annual voluntary contribution limit.

Residency requirements for SMSFs

From 1 July 2022, the residency requirements for self-managed superannuation funds (SMSFs) will be relaxed. The central management and control test safe harbour rule will move from two to five years and the active member test will be removed.

COMMENT: A common sense development which provides consistent treatment with members of the large non-SMSF super funds.

It does not change the fact though that if a SMSF trustees move away permanently with no intent to return, the SMSF will become a non-complying fund immediately.

Taxation

Low and Middle Income Tax Offset extended

The Low and Middle Income Tax Offset (LMITO) will be extended for another year.

Eligibility for the LMITO is as follows:

Taxable Income	Offset
Up to $37,000	$255
$37,001 to $48,000	$255 plus 7.5 cents for each dollar above $37,000 (maximum of $1,080)
$48,001 to $90,000	$1,080
$90,000 to $126,000	$1,080 less 3 cents for each dollar above $90,000
Above $126,000	$0

COMMENT: If you are eligible for the offset, it is applied automatically when submitting your tax return. LMITO is available in addition to the low income tax offset (up to $700).

Tax residency rules

From 1 July 2022, a person will be considered an Australian tax resident if they are physically in Australia for at least 183 days in a financial year. This test will be the primary test. People who do not meet this test may still be considered a resident under a series of secondary tests that depend on a combination of physical presence and measurable objective criteria.

Employee share schemes

From 1 July 2022, leaving an employer will no longer be a taxing point for employee share scheme entitlements. This means that tax deferral for the employee share scheme entitlements will continue until forfeiture conditions have passed and shares are held that are freely able to be sold, but still subject to the maximum 15-year tax deferral period. Currently forfeiture conditions and sales restrictions are usually lifted at the time employments ends.

Small Business

Temporary full expensing of capital assets

Temporary full expensing of capital investments will be extended by a further 12 months to 30 June 2023. It will allow eligible businesses with aggregated annual turnover or total income of less than $5 billion to deduct the full cost of eligible depreciable assets, acquired between 6 October 2020 and first used or installed ready for use by 30 June 2023.

Temporary loss carry-back

Temporary loss carry-back provisions will be extended by a further 12 months to 30 June 2023. This will allow eligible corporate entities with less than $5 billion turnover to offset temporary losses from the 2022-23 financial year against previously taxed profits going back to the 2018-19 financial year.

Social Security

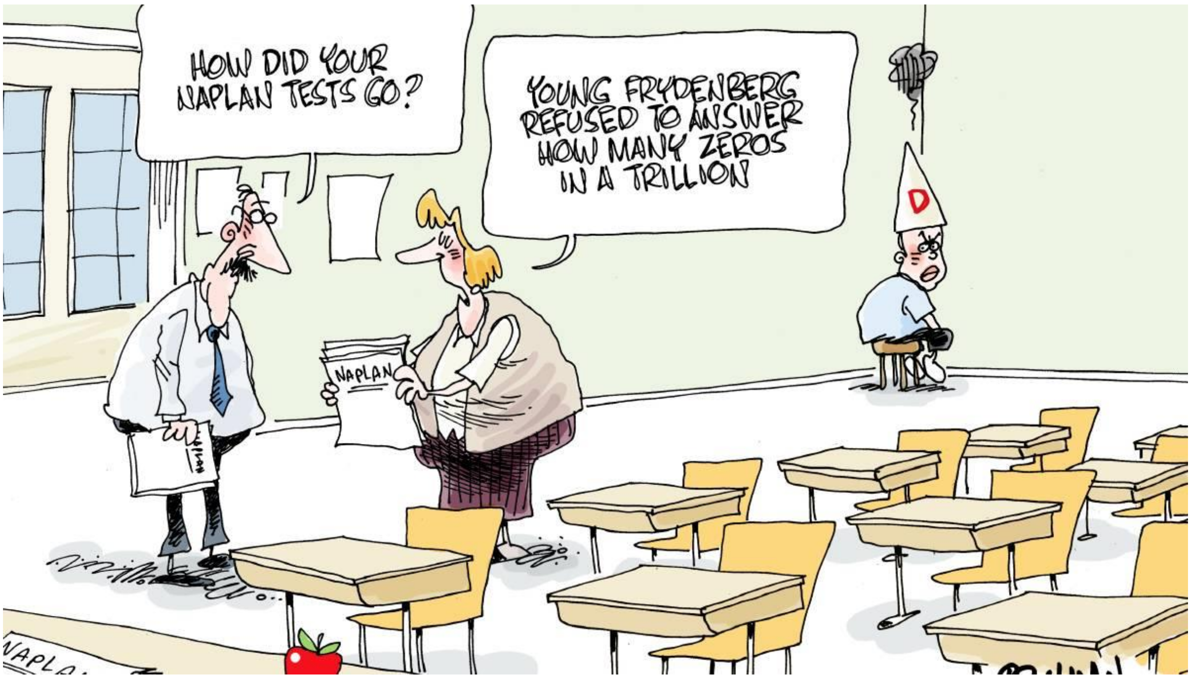
Improving the Pension Loan Scheme

From July 2022 the Government will introduce a 'No Negative Equity Guarantee' for Pension Loan Scheme (PLS) loans. This means borrowers, or their estate, will not owe more than the value of their property. This brings the PLS in line with private sector reverse mortgages.

In addition, eligible people will be able to access up to two lump sum advances in any 12-month period, up to a total value of 50% of the maximum annual rate of Age Pension (currently $12,385 for singles and $18,670 for couples).

Currently the Pension Loan Scheme (PLS) allows a fortnightly loan of up to 150% of the maximum rate of Age Pension to help boost a person's retirement income by unlocking capital in their real estate assets. It is available to self-funded retirees who are Age Pension age or above but do not receive a social security pension. Interest is compounded fortnightly at 4.50% p.a., and any debt under the scheme is paid back when the property is sold, or the person dies.

COMMENT: Adding flexibility to the payment structure is welcome, as too is the certainty that the debt will never exceed the property value.



Peter Broelman's take in The Canberra Times

Material contained in this publication is an overview or summary only and it should not be considered a comprehensive statement on any matter or relied upon as such. This information may contain material provided by third parties derived from sources believed to be accurate at its issue date.

Suite 6, 37-39 Railway Parade,
Mount Lawley, WA 6050

PO Box 585, Maylands, WA 6931

08 6143 3792

08 6555 8181