

Impact of the October 2020 Federal Budget

Item	Description	Client Impact																																															
Taxation																																																	
1. Personal Income Tax	<p>The “Stage 2” increases to the upper income thresholds for the 19% and 32.5% tax band, currently due to commence on 1 July 2022, are being brought forward to 1 July 2020:</p> <table border="1"> <thead> <tr> <th>Income</th> <th>Existing rates</th> <th>New rates</th> </tr> </thead> <tbody> <tr> <td>\$0 to \$18,200</td> <td>Nil</td> <td></td> </tr> <tr> <td>\$18,201 to \$37,000</td> <td>19%</td> <td></td> </tr> <tr> <td>\$18,201 to \$45,000</td> <td></td> <td>19%</td> </tr> <tr> <td>\$37,001 to \$90,000</td> <td>32.5%</td> <td></td> </tr> <tr> <td>\$45,001 to \$120,000</td> <td></td> <td>32.5%</td> </tr> <tr> <td>\$90,001 to \$180,000</td> <td>37%</td> <td></td> </tr> <tr> <td>\$120,001 to \$180,000</td> <td></td> <td>37%</td> </tr> <tr> <td>\$180,001 +</td> <td>45%</td> <td>45%</td> </tr> </tbody> </table>	Income	Existing rates	New rates	\$0 to \$18,200	Nil		\$18,201 to \$37,000	19%		\$18,201 to \$45,000		19%	\$37,001 to \$90,000	32.5%		\$45,001 to \$120,000		32.5%	\$90,001 to \$180,000	37%		\$120,001 to \$180,000		37%	\$180,001 +	45%	45%	<ul style="list-style-type: none"> The following personal income tax savings are projected based on the difference between the current rates for 20/21 and the proposed new rates after also taking account of LITO and LMITO (see below): <table> <thead> <tr> <th><u>Taxable</u> <u>Income</u></th> <th><u>20/21</u> <u>saving</u></th> </tr> </thead> <tbody> <tr> <td>\$40,000</td> <td>\$580</td> </tr> <tr> <td>\$60,000</td> <td>\$1,080</td> </tr> <tr> <td>\$80,000</td> <td>\$1,080</td> </tr> <tr> <td>\$100,000</td> <td>\$1,530</td> </tr> <tr> <td>\$120,000</td> <td>\$2,430</td> </tr> <tr> <td>\$140,000</td> <td>\$2,430</td> </tr> <tr> <td>\$160,000</td> <td>\$2,430</td> </tr> <tr> <td>\$180,000</td> <td>\$2,430</td> </tr> <tr> <td>\$200,000</td> <td>\$2,430</td> </tr> </tbody> </table>	<u>Taxable</u> <u>Income</u>	<u>20/21</u> <u>saving</u>	\$40,000	\$580	\$60,000	\$1,080	\$80,000	\$1,080	\$100,000	\$1,530	\$120,000	\$2,430	\$140,000	\$2,430	\$160,000	\$2,430	\$180,000	\$2,430	\$200,000	\$2,430
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	<p>The following “Stage 3” changes from the 2019 Budget have not been brought forward and are now scheduled to commence from 1 July 2024:</p> <table border="1" data-bbox="594 646 1058 846"> <thead> <tr> <th>Income</th> <th>24/25</th> </tr> </thead> <tbody> <tr> <td>\$0 to \$18,200</td> <td>Nil</td> </tr> <tr> <td>\$18,201 to \$45,000</td> <td>19%</td> </tr> <tr> <td>\$45,001 to \$200,000</td> <td>30%</td> </tr> <tr> <td>\$200,001 +</td> <td>45%</td> </tr> </tbody> </table>	Income	24/25	\$0 to \$18,200	Nil	\$18,201 to \$45,000	19%	\$45,001 to \$200,000	30%	\$200,001 +	45%	<ul style="list-style-type: none"> From the 2024/25 year, a 30% tax rate will apply for incomes between \$45,001 and \$200,000. Treasury estimates this tax bracket will then cover 70% of taxpayers and that 94% of taxpayers will face a tax bracket of 30% or less by 2024/25.
Income	24/25											
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\$18,201 to \$45,000	19%											
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<p>2. Low and Middle Income Tax Offset (“LMITO”)</p>	<p>LMITO was due to cease with Stage 2 of the tax cuts on 1 July 2022 but despite the pull forward of the Stage 2 tax cuts, will remain until June 2021. The current LMITO rates are:</p> <table border="1" data-bbox="594 1141 1274 1333"> <thead> <tr> <th>Income</th> <th>LMITO rebate</th> </tr> </thead> <tbody> <tr> <td>Up to \$37,000</td> <td>Up to \$255</td> </tr> <tr> <td>\$37,001 to \$47,999</td> <td>Between \$255 and \$1,080</td> </tr> <tr> <td>\$48,000 to \$90,000</td> <td>\$1,080</td> </tr> <tr> <td>\$90,001 to \$126,000</td> <td>Reduces down to \$Nil</td> </tr> </tbody> </table>	Income	LMITO rebate	Up to \$37,000	Up to \$255	\$37,001 to \$47,999	Between \$255 and \$1,080	\$48,000 to \$90,000	\$1,080	\$90,001 to \$126,000	Reduces down to \$Nil	<ul style="list-style-type: none"> Tax savings of \$1,080 for those earning between \$48,000 and \$90,000 p.a. The LMITO is in <i>addition</i> to the existing Low Income Tax Offset (LITO).
Income	LMITO rebate											
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<p>3. Low Income Tax Offset (“LITO”)</p> <p>1 July 2020</p>	<p>LITO increase is also proposed to be brought forward and increased from \$445 to \$700. The proposed new rates are:</p> <table border="1" data-bbox="592 646 1276 802"> <thead> <tr> <th data-bbox="592 646 898 686">Income</th> <th data-bbox="898 646 1276 686">LITO rebate</th> </tr> </thead> <tbody> <tr> <td data-bbox="592 686 898 727">Up to \$37,500</td> <td data-bbox="898 686 1276 727">Up to \$700</td> </tr> <tr> <td data-bbox="592 727 898 768">\$37,501 to \$45,000</td> <td data-bbox="898 727 1276 768">Between \$700 and \$325</td> </tr> <tr> <td data-bbox="592 768 898 802">\$45,001 to \$66,667</td> <td data-bbox="898 768 1276 802">Reduces down to \$Nil</td> </tr> </tbody> </table>	Income	LITO rebate	Up to \$37,500	Up to \$700	\$37,501 to \$45,000	Between \$700 and \$325	\$45,001 to \$66,667	Reduces down to \$Nil	
Income	LITO rebate									
Up to \$37,500	Up to \$700									
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\$45,001 to \$66,667	Reduces down to \$Nil									
<p>4. Other taxation initiatives</p>	<ol style="list-style-type: none"> 1. A Fringe Benefits Tax (FBT) exemption for employers providing training and reskilling relating to a different role prior to redeployment. 2. An additional 10,000 places will be provided under the First Home Loan Deposit Scheme for first home buyers to purchase a new home with a deposit as little as 5%. 3. The removal of capital gains tax on formal and legally enforceable granny flat arrangements entered into because of family relationships or other personal ties (but not to commercial rental agreements) potentially commencing from 1 July 2021. 4. Increasing the instant asset write off to apply to eligible depreciable assets <i>of any value</i> (previously capped at \$30,000) from 6 October 2020 (Budget night) to 30 June 2022. This measure will now apply to businesses with aggregated annual turnover of less than \$5bn (previously \$50m). 5. Companies with turnover of up to \$5bn will be allowed to offset income tax losses incurred to June 2020 against prior profits made on or after the 2018/19 tax year. 6. Business with annual turnover between \$10m and \$50m to get access to ten small business tax concessions including deductions for certain start-up expenses and certain prepaid expenses (from 1 July 2020), FBT exemptions on car parking and electronic devices provided to employees (from 1 April 2021) etc. 									

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Superannuation		
<p>1. Making your super work harder for you</p> <p>Effective 1 July 2021</p>	<p>A number of initiatives have been announced including:</p> <ol style="list-style-type: none"> i. Allowing your superannuation account to follow you to your new job rather than the employer creating a new super account. ii. An online YourSuper tool for MySuper products which will encourage funds to compete harder. iii. Require funds to meet an annual objective performance test and inform members where a fund fails to perform. Two consecutive years of underperformance will result in products being prevented from taking on new members. This measure will initially just apply to MySuper funds and then be extended to certain other APRA regulated funds from 1 July 2022. iv. Increase trustee accountability. 	<ul style="list-style-type: none"> • The new employee is defaulted into their existing fund rather than the one chosen by the employer. Details on the employees fund will be obtained from the employee or from the ATO. There is a risk that adequate life insurance may not be maintained particularly with a change in the employees role. • Reducing the number of unintended multiple accounts can only be a positive move in reducing fees and reducing the likelihood of lost super. • The YourSuper tool will allow employees with MySuper products to compare funds and consolidate accounts. Although updated quarterly, an annual performance test alone may not be appropriate as members are trying to maximise long term returns.

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<p>2. Other superannuation initiatives</p>	<p>Announced in the May 2019 Budget, retirees aged 65 and 66 will be able to make voluntary superannuation contributions, both concessional and non-concessional, without meeting the work test of 40 hours over a 30 day period. This legislation has been passed effective 1 July 2020.</p> <p>The bring-forward arrangements were also proposed to be extended to those aged 65 and 66 (currently you have to be under 65). These provisions allow three years' worth of non-concessional contributions to be placed into super in a single year. However, these provisions are still to be enacted.</p> <p>Furthermore</p> <ul style="list-style-type: none"> • The Government restated an intention to increase the maximum number of fund members that can participate in a self-managed superannuation fund (SMSF) and a small APRA fund to six members (up from four). This measure was originally announced in the 2018-19 Budget and amending legislation is currently before the Senate with a start date from Royal Assent. • The Government reaffirmed the 2020/21 50% reduced pension rates for Account Based Pensions. • No mention was made regarding holding off on the upcoming Superannuation Guarantee rate increase from 9.5% to 10% on 1 July 2021. However this may be addressed in the May 2021 Federal Budget. 	

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Social Security		
1. Age Pensioner Economic Support Payments	<p>In addition to the \$750 Economic Support Payments made to Age Pensioners in April and July this year, two additional \$250 payments will be made, the first in December 2020 and the second in early 2021.</p> <p>Eligible veteran income support recipients, Disability Support Pensioners, concession card holders (including the CSHC) and certain other social security recipients will also receive the two payments.</p>	<ul style="list-style-type: none"> The additional small two payments of \$250 each will be made automatically.
2. Aged Care	<p>Funding for an extra 23,000 home care packages.</p>	<ul style="list-style-type: none"> This will help to reduce the long waiting periods that are currently in the home care package system.
3. Other social security initiatives	<ol style="list-style-type: none"> A JobMaker Hiring Credit will be payable for up to 12 months for each new job created for eligible employees aged 16-35. The employee must be coming off JobSeeker and work at least 20 hours a week. The employer must demonstrate an increase in overall employee headcount. The credit is \$200 p.w. for employees between 16-29 and \$100 p.w. for those between 30 and 35. A JobTrainer fund with 340,000 free or low cost training places. Increase in Medicare funded psychology visits from 10 to 20, increase funding to organisations such as Lifeline, Beyond Blue etc. 	



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Disclaimer

This list is a summary of the October 2020 Federal Budget in so far as it generally affects clients of The Professional Super Advisers. It is not meant to be an exhaustive list of issues and strategies to consider. The information has been sourced from various Government websites and other material including from Chartered Accountants Australia and New Zealand. The Professional Super Advisers believe that the information herein is accurate and reliable, but no warranty on accuracy or reliability is given and no responsibility arising in any way for errors or omissions (including responsibility by reason of negligence) is accepted by any member of the company or its representatives. This disclaimer is subject to any contrary provisions of the Competition and Consumer Act. Taxation considerations are based on current laws and their interpretation at the date of preparation of this paper.