The Professional Super Advisers

Impact of the May 2021 Federal Budget

Item	Description	Client Impact
Superannuation		
1. Removal of the work test for voluntary superannuation contributions **Effective from first full financial year after the enabling legislation is passed (i.e. expect from 1 July 2022)**	Individuals aged 67 to 74 years (inclusive) will no longer need to pass a work test to contribute to super. The ability to contribute will still be subject to existing contribution caps. The measure applies to non-concessional or salary sacrifice superannuation contributions, but does not apply to personal deductible contributions (ie a work test still needs to be met in that case). Currently, individuals aged 67 to 74 years can only make voluntary contributions (both concessional and non-concessional) to their superannuation, or receive contributions from their spouse, if they are working at least 40 hours over a 30 day period in the relevant financial year. Non concessional contributions cannot be made if your Total Superannuation Balance was over $1.6m on 1 July 2020 (to be increased to $1.7m at 1 July 2021).	• Retirees aged between 67 and 74 at July 2022 should review their situation to determine if they should take advantage of these new rules. • Individuals are likely to have passed a work test if salary sacrificing so the rule effectively only applies to non concessional contributions. • This will simplify the rules for those retirees under 75 and increase the flexibility for older Australians to utilise superannuation. • This will allow retirees to top up their superannuation between 67 and 74 possibly from an inheritance, the sale of an asset or from the sale of their home (in conjunction with the Downsizer contribution – see below). Recontribution strategies should also be considered.

The Professional Super Advisers

Impact of the May 2021 Federal Budget

Item	Description	Client Impact
2. Removal of the $450 per month threshold for superannuation guarantee eligibility **Effective from first full financial year after the enabling legislation is passed (i.e. expect from 1 July 2022)**	Removal of the current $450 per month minimum income threshold, under which employees do not have to be paid the superannuation guarantee by their employer. This measure will improve equity in the superannuation system by expanding the superannuation guarantee coverage for cohorts with lower incomes.	• The Retirement Income Review estimated that around 300,000 individuals would receive additional superannuation guarantee payments each month, 63 per cent of whom are women. • Easier for employers to enact now that payroll systems are essentially all automated.
3. Reducing the eligibility age for downsizer contributions **Effective from first full financial year after the enabling legislation is passed (i.e. expect from 1 July 2022)**	Reduction of the eligibility age to make downsizer contributions into superannuation from 65 to 60 years of age. The downsizer contribution allows people to make a one-off, post-tax contribution to their superannuation of up to $300,000 per person from the proceeds of selling their home. Both members of a couple can contribute in respect of the same home, and contributions do not count towards non-concessional contribution caps.	• Individuals and couples aged over 60 at July 2022 should review their situation to determine if they should take advantage of these new rules. • Will be applicable to individuals who are already over their non concessional contribution cap ($1.7m from July 2021) or those who are concurrently making non-concessional contributions to super and will have used up their contribution cap.

The Professional Super Advisers

Impact of the May 2021 Federal Budget

Item	Description	Client Impact
4. Expanding the First Home Super Saver Scheme **Effective from first full financial year after the enabling legislation is passed (i.e. expect from 1 July 2022) except for the procedural changes which will be backdated to 1 July 2018**	Increase the maximum releasable amount of voluntary concessional and non-concessional contributions under the First Home Super Saver Scheme (FHSSS) from $30,000 to $50,000. The FHSSS allows individuals for save for a house deposit at lower tax rates within their superannuation fund. The Government will also make a number of procedural changes including: • increasing the discretion of the Commissioner of Taxation to amend and revoke FHSSS applications • allowing the Commissioner of Taxation to return any released FHSSS money to superannuation funds, provided that the money has not yet been released to the individual • clarifying that the money returned by the Commissioner of Taxation to superannuation funds is treated as funds' non-assessable non-exempt income and does not count towards the individual's contribution caps.	• The FHSSS should be considered by anyone trying to save for their first home. The increase to $50,000 will allow more flexibility at the time of growing house prices. • Care needs to be taken to guard against inadvertently locking money in super for decades where a property is not eventually bought (e.g. future partner has a property). • Consideration needs be given to how the money is invested in superannuation given that it is for the short to medium term.

Impact of the May 2021 Federal Budget

Item	Description	Client Impact
5. SMSF Legacy Retirement Product Conversions **Effective from first full financial year after the enabling legislation is passed (i.e. expect from 1 July 2022) for two years**	Individuals will be given a two-year window of opportunity to exit a specified range of legacy retirement products held within a Self Managed Superannuation Fund (SMSF), together with any associated reserves. The measure will include market-linked, life-expectancy and lifetime products, but not flexi-pension products or a lifetime product in a large APRA-regulated or public sector defined benefit scheme. This measure will permit full access to all of the product's underlying capital, including any reserves, and allow individuals to potentially shift to more contemporary retirement products. Social security and taxation treatment will not be grandfathered for any new products commenced with commuted funds and the commuted reserves will be taxed as an assessable contribution.	• This measure provides welcome relief to those in legacy pensions such as lifetime and market linked pensions within a SMSF. • The potential conversion of the product will need to be assessed on its own merits bearing in mind the tax and social security implications. • The rules of the SMSF and the product will need to be carefully considered to determine what courses of action are available.

Impact of the May 2021 Federal Budget

Item	Description	Client Impact
6. Relaxing of the Residency Test for SMSF and Small APRA Funds **Effective from first full financial year after the enabling legislation is passed (i.e. expect from 1 July 2022)**	Relaxing the residency requirements for self-managed superannuation funds (SMSFs) and small APRA-regulated funds (SAFs) by extending the central control and management test safe harbour from two to five years for SMSFs and removing the active member test for both fund types.	• This is welcome relief especially for anyone stuck overseas during the pandemic. • The removal of the active member test will provide opportunities for those overseas to restart their contribution plans.
7. Other superannuation initiatives	1. 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. 2. No mention was made regarding holding off on the upcoming Superannuation Guarantee rate increase from 9.5% to 10%. Hence we expect the rate to increase to 10% from 1 July 2021.	

Impact of the May 2021 Federal Budget

Item	Description	Client Impact
Taxation		
1. Personal Income Tax	There were no major changes to personal income tax rates or bands. However, the Government will retain the Low and Middle Income Tax Offset for the 2021-22 income year. The current LMITO rates are: 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 The following "Stage 3" changes from the 2019 Budget have not been brought forward and are still scheduled to commence from 1 July 2024: Income / 24/25: \$0 to \$18,200 — Nil \$18,201 **to** \$45,000 — 19% \$45,001 **to \$200,000** — **30%** **\$200,001** + — 45%	• The continuation of tax savings from the LMITO of \$1,080 for those earning between \$48,000 and \$90,000 p.a. • 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.

The Professional Super Advisers

Impact of the May 2021 Federal Budget

Item	Description	Client Impact
2. Other taxation initiatives **Effective from the first income year after the date of Royal Assent of the enabling legislation unless otherwise stated.**	1. Removal of cessation of employment as a taxing point for Employee Share Schemes. To apply to ESS interests' issues from the start of the legislation. 2. The Government will replace the individual tax residency rules with a new, modernised framework. The primary test will be a person who is physically present in Australia for 183 days or more in any income year will be an Australian tax resident. Individuals who do not meet the primary test will be subject to secondary tests that depend on a combination of physical presence and measurable, objective criteria. 3. The Medicare levy low income threshold for singles for 2020/21 will be increased from $22,801 to $23,226. The family threshold will be increased from $38,474 to $39,167. For single seniors and pensioners, the threshold will be increased from $36,056 to $36,705. The family threshold for seniors and pensioners will be increased from $50,191 to $51,094. For each dependent child or student, the family income thresholds increase by a further $3,597 instead of the previous amount of $3,533. 4. Remove the exclusion of the first $250 of deductions for prescribed courses of education. 5. Extension of the full expensing rule until 30 June 2023 for the full cost of depreciable assets acquired by eligible businesses. 6. An extension of the carry back provisions to allow companies with turnover of up to $5bn to offset income tax losses incurred to June 2023 against prior profits made on or after the 2018/19 tax year. 7. 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% and an additional 10,000 places for single parents with dependent children for deposits as little as 2%.	

Impact of the May 2021 Federal Budget

Item	Description	Client Impact
Social Security		
1. Increasing the Flexibility of the Pension Loan Scheme **Effective from July 2021**	Allowing participants to access up to two lump sum advances in any 12-month period, up to a total value of 50 per cent of the maximum annual rate of the Age Pension.	
2. Aged Care	The Government will provide $698.3 million over five years from 2020-21 as part of the $17.7 billion whole-of-government response to the recommendations of the Royal Commission into Aged Care Quality and Safety (the Royal Commission) to improve safety and quality and the availability of aged care services.	• This is only a start to address the many issues identified by the Royal Commission. • An extra 80,000 home care packages (to lift to a total of 275,598) will provide some relief to the long waiting lists.
3. Other social security initiatives	1. Increased child care subsidies including the removal of the annual cap and increased subsidies for families with second and subsequent children aged five and under. 2. $2.3 billion is being placed towards a National Mental Health and Suicide Prevention Plan including greater access to psychiatrists, psychologists and GPs through medicare, increased funding to organisations such as Lifeline, BeyondBlue and Kidshelpline etc.	

Contact details:

Kevin Smith, Director, The Professional Super Advisers AFSL No. 321895
Tel: 02 9955 5800 Email: kevinsmith@thepsa.com.au
Internet: www.thepsa.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Disclaimer
This list is a summary of the May 2021 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. 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.