# A Clear Direction Financial Planning

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## 2020 Budget - Personal Finance Summary

The 2020 Federal Government Budget address has been delivered in Canberra overnight. This summary is focussed on the major changes to individual and family personal finances grouped into three main areas – tax planning, superannuation & retirement planning and government benefit planning.

### Tax Planning

- **Accelerating personal income tax cuts.**
- **Temporary tax incentives for businesses to support new investments and increase business cash flow.**
- **Medicare levy low income thresholds to be increased.**
- **Exempting granny flat arrangements from capital gains tax.**

### Superannuation & Retirement Planning

- **Temporary Early release of superannuation through to the end of December 2020.**
- **Temporary reduction in superannuation minimum drawdown requirements.**
- **Automatic continuation of superannuation account when changing employers.**
- **YourSuper Comparison Tool.**
- **Superannuation work test changes.**

### Government Benefit Planning

- **Jobkeeper payments to continue through to March 2021.**
- **JobMaker Hiring Credit.**
- **Coronavirus Supplement extension.**
- **Additional Economic Support Payments for pensioners and other eligible recipients.**
- **Reduction in social security deeming rates.**
- **Additional 10,000 places provided in 2020-21 under the First Home Loan Deposit Scheme.**
- **Increases in the number of available Home Care Packages.**
- **Tax-free cash flow boosts of between $20,000 and $100,000 for eligible employers.**
- **HomeBuilder grants of $25,000.**
- **Temporary relaxation of the Youth Allowance Independence Test.**

## TAX PLANNING

### Personal Income Tax Cuts

From 1 July 2020 low and middle income earners will receive tax relief of up to $2,745 for singles, and up to $5,490 for dual income families, compared with 2017-18 settings. This will be achieved through bringing forward the tax cuts in Stage 2 of their previous plan as well as a one-off additional benefit from the low and middle income tax offset in 2020-21

The benefits are set out in the following table.

| | 2017-18 | 2020-21 | | |
|---|---|---|---|---|
| Taxable Income ($) | Tax Liability ($) | Tax Liability ($) | Change in Tax ($) | Change in Tax (%) |
| 40,000 | 4,947 | 3,877 | -1,060 | -21.4 |
| 60,000 | 12,147 | 9,987 | -2,160 | -17.8 |
| 80,000 | 19,147 | 16,987 | -2,160 | -11.3 |
| 100,000 | 26,632 | 24,187 | -2,445 | -9.2 |
| 120,000 | 34,432 | 31,687 | -2,745 | -8.0 |
| 140,000 | 42,232 | 39,667 | -2,565 | -6.1 |
| 160,000 | 50,032 | 47,467 | -2,565 | -5.1 |
| 180,000 | 57,832 | 55,267 | -2,565 | -4.4 |
| 200,000 | 67,232 | 64,667 | -2,565 | -3.8 |

The top threshold of the 19 per cent tax bracket is being increased from $37,000 to $45,000 whilst also increasing the low income tax offset from $445 to $700 from 1 July 2020.

From 1 July 2020 the top threshold of the 32.5 per cent tax bracket will be increased from $90,000 to $120,000, providing a tax cut of up to $1,350 per year.

From 1 July 2024, the Government will increase the top threshold of the 32.5 per cent tax bracket from $120,000 to $200,000 and reduce the rate to 30.0 per cent, removing the 37 per cent tax bracket completely.

The low and middle income tax offset was due to be removed at the commencement of Stage 2 of the income tax plan. However it has been extended for one more year at a level of up to $1,080 for individuals. The maximum benefit is received by those with taxable income between $48,000 and $90,000.

The LMITO provides a reduction in tax of up to $1,080. It provides a reduction in tax of up to $255 for taxpayers with a taxable income of $37,000 or less. Between taxable incomes of $37,000 and $48,000, the value of the offset increases at a rate of 7.5 cents per dollar to the maximum offset of $1,080. Taxpayers with taxable incomes between $48,000 and $90,000 are eligible for the maximum offset of $1,080. For taxable incomes of $90,000 to $126,000, the offset phases out at a rate of 3 cents per dollar. Consistent with current arrangements, the LMITO will be received on assessment after individuals lodge their tax returns for the 2020-21 income year.

Putting these income tax changes together sees the following proposed changes

| Rate (%) | 2017/18 tax thresholds Income range ($) | Tax thresholds From 1 July 2018 Income range ($) | New tax thresholds From 1 July 2020 Income range ($) | Proposed tax thresholds From 1 July 2024 Income range ($) |
|---|---|---|---|---|
| Tax free | 0 - 18,200 | 0 - 18,200 | 0 - 18,200 | 0 - 18,200 |
| 19 | 18,201 - 37,000 | 18,201 - 37,000 | 18,201 - 45,000 | 18,201 - 45,000 |
| 32.5 | 37,001 - 87,000 | 37,001 - 90,000 | 45,001 - 120,000 | 45,001 - 200,000 (30% not 32.5%) |
| 37 | 87,001 - 180,000 | 90,001 - 180,000 | 120,001 - 180,000 | - |
| 45 | >180,000 | >180,000 | >180,000 | >200,000 |
| Low and middle income tax offset | - | Up to 1,080 | Up to 1,080 (to the end of 20/21) | - |
| Low Income Tax Offset | Up to 445 | Up to 445 | Up to 700 | Up to 700 |

**Strategy Thought**

It is recommended that a careful consideration of how best to use these tax savings be undertaken including whether to pay down debt, increase a savings buffer, place new investments, increasing contributions into super or purchase goods and services to improve quality of life.

## Business Tax Incentives

### Immediate tax deductibility for businesses

Businesses with turnover less than $5 billion between now and 30 June 2022 will be able to deduct the full cost of 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.

**Strategy Thought**

Business owners are encouraged to consider whether capital purchases to enhance future business productivity be made in the next 22 months.

### Temporary Loss Carry-Back

Businesses with turnover less than $5 billion will be able to offset losses incurred in 2020-21 and 2021-22 against profits made in or after 2018-19.

**Strategy Thought**

Business owners that have the capacity to purchase capital assets or increase expenditure may consider doing so to create a tax loss for the current and next financial year and through doing so offset that loss against prior year profits in 2018-19 or 2019-20.

### Small Business Tax Concessions

Tax concessions to small businesses with a turnover of up to $50 million will be expanded as follows:

- From 1 July 2020, eligible businesses would be able to immediately deduct start-up expenses and certain pre-paid expenditure
- From 1 April 2021, eligible businesses will be exempt from fringe benefit tax (FBT) on car parking and multiple work-related portable electronic devices.
- From 1 July 2021, eligible businesses will have simplified trading stock rules, a change to calculation of Pay-As-You-Go instalments and changes to excise and customs duty. A two-year amendment period would apply for income tax returns starting 1 July 2021

<u>Fringe benefit tax exemption for training</u>

An exemption from FBT will be provided to employers providing training and reskilling to redundant or soon to be redundant employees. Ordinarily, FBT would apply if the training provided is not sufficiently connected to the current employment. The exemption would apply from 2 October 2020 (date of the announcement).

Additionally, the Government will consult on possible changes for employees that undertake training at their own expense. Currently, a tax deduction is only available where the training relates to the current employment.

## Medicare levy low income thresholds to increase

The Medicare levy low income thresholds for singles, families, seniors and pensioners will be increased from the 2019/20 income year.

The threshold for singles will increase to $22,801 (up from $22,398 in 2019/20). The family threshold will increase to $38,474 (up from $37,794 in 2019/20). For single seniors and pensioners, the threshold will increase to $36,056 (up from $35,418 in 2019/20). The family threshold for seniors and pensioners will increase to $50,191 (up from $49,304 in 2019/20). For each dependent child or student, the family income thresholds increase by a further $3,533 (up from $3,471 in 2019/20).

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**Strategy Thought**

For seniors and pensioners, this changes see the maximum allowable taxable income that can be earned before paying any tax rise slightly which in turn sees an ability to hold slightly higher levels of income producing assets in taxable accounts before needing to pay tax. This may allow some to hold a larger sum of assets outside of the superannuation system to remain in a tax exempt status.

### Exempting granny flat arrangements from capital gains tax

The Government will provide a targeted capital gains tax (CGT) exemption for granny flat arrangements where there is a formal written agreement. The exemption will apply to arrangements with older Australians or those with a disability. The measure will have effect from the first income year after the date of Royal Assent of the enabling legislation.

Granny flat arrangements often include an older person transferring:

- Legal title of their exiting home in return for a right to occupy the home for life
- Legal title of their home, plus other assets, in return for a right to occupy the home for life
- Paying for the construction of or renovations to another dwelling, or
- Transferring cash or other assets, in return for a right to occupy another person's home.

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. This measure will remove the CGT impediments, reducing the risk of abuse to vulnerable Australians.

**Strategy Thought**

For those families who have embarked on a granny flat arrangement informally or who are considering this strategy for future use, this change will allow greater certainty for all parties allowing formal recognition of the agreement without incurring potentially significant capital gains tax implications in future years.

## SUPERANNUATION & RETIREMENT PLANNING

### Temporary Early Access to Superannuation

The government has allowed individuals affected by the adverse impacts of COVID-19 to access up to $10,000 of their superannuation in 2019-20 and again from July the end of December 2020 for the 2020/21.

**Strategy Thought**

For those impacted by COVID this may be an opportunity to redirect funds to reduce mortgage stress or provide an additional cash buffer for the family budget. The most effective method to release these funds would be from a cash option in super rather than selling down units in a diversified option such as a balanced fund. If you do not have a readily available cash option you can create one through rearranging your superannuation investments before requesting the withdrawal.

### Temporary Reduction in Superannuation Minimum Drawdown Requirements

The government has reduced the superannuation minimum drawdown rates for account based pensions and similar products by 50 per cent for the 2019-20 and 2020-21 financial years.

**Strategy Thought**

If not requiring the current level of drawdown from a superannuation pension stream consider reducing the level in order to preserve more funds in the tax exempt pension phase of superannuation.

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## Automatic continuation of superannuation account when changing employers

The government will legislate that Australians will automatically keep their superannuation fund when they change employers unless you choose to select a new fund.

By 1 July 2021:

- If an employee does not nominate an account at the time they start a new job, employers will pay their superannuation contributions to their existing fund.
- Employers will obtain information about the employee's existing superannuation fund from the ATO.
- The employer will do this by logging onto ATO online services and entering the employee's details. Once an account has been selected, the employer will pay superannuation contributions into the employee's account.
- If an employee does not have an existing superannuation account and does not make a decision regarding a fund, the employer will pay the employee's superannuation into their nominated default superannuation fund.

## YourSuper Comparison Tool

This tool will help people compare the performance of MySuper products.

By 1 July 2021, the YourSuper tool will:

- Provide a table of simple super products (MySuper) ranked by fees and investment returns.
- Link you to super fund websites where you can choose a MySuper product.
- Show your current super accounts and prompt you to consider consolidating accounts if you have more than one.

## Superannuation work test changes

Currently people aged 67-74 must work a minimum of 40 hours in any 30-day period in the financial year in order to keep making contributions to superannuation – this is known as the work test. Previously the age bracket was from 65 to 74.

**Strategy Thought**

This will extend the window for recent retirees over the age of 65 to contribute funds into superannuation in order to enhance the structure of assets (i.e. get more funds into superannuation)

This may also be useful if employing a withdrawal and recontribution strategy in order to reduce the death benefit withdrawal tax that we all face within our superannuation accounts.

# GOVERNMENT BENEFIT PLANNING

## JobKeeper Payment

The government has extended the JobKeeper payment support until 28 March 2021.

The employment reference date for assessing an employee's eligibility for the JobKeeper Payment was changed from 1 March 2020 to 1 July 2020, with effect from 3 August 2020. This means that employees who were hired during this period may now be eligible for the JobKeeper Payment (subject to other relevant eligibility criteria).

The eligibility criteria related to the turnover decline for businesses and not-for-profits changed to make it easier for those still significantly impacted by the COVID-19 pandemic to access the JobKeeper Payment. To be eligible for JobKeeper after 28 September 2020, businesses and not-for-profits are now only required to demonstrate that their actual turnover was sufficiently affected in the previous quarter (rather than in every quarter from June 2020 onwards) to be eligible for JobKeeper Payment in the December 2020 and March 2021 quarters.

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From 28 September 2020 to 3 January 2021, the JobKeeper Payment will generally be $1,200 per fortnight for eligible employees and business participants. A JobKeeper Payment of $750 per fortnight will apply for all eligible employees and business participants who worked for the business or not-for-profit for less than 20 hours per week, on average, in the four weekly pay periods ending prior to 1 March 2020.

From 4 January 2021 to 28 March 2021, the JobKeeper Payment will generally be $1,000 per fortnight for eligible employees and business participants. A JobKeeper payment of $650 per fortnight will apply for eligible employees and business participants who worked for the business or not-for-profit for less than 20 hours per week, on average, in the four weekly pay periods ending prior to 1 March 2020.

## JobMaker Hiring Credit

The JobMaker Hiring Credit will be available to employers for each new job they create over the next 12 months for which they hire an eligible young person, aged 16 to 35 years old.

From 7 October 2020, eligible employers will be able to claim $200 a week for each additional eligible employee they hire aged 16 to 29 years old; and $100 a week for each additional eligible employee aged 30 to 35 years old.

New jobs created until 6 October 2021 will attract the JobMaker Hiring Credit for up to 12 months from the date the new position is created.

To be eligible, the employee must have received the JobSeeker Payment, Youth Allowance (Other), or Parenting Payment for at least one of the previous three months at the time of hiring.

The JobMaker Hiring Credit will be claimed quarterly in arrears by the employer from the Australian Taxation Office (ATO) from 1 February 2021. Employers will need to report quarterly that they meet the eligibility criteria.

There is a lot more detail regarding eligibility. Rather than include those details here please get in contact if you would like to receive a copy of the government's fact sheet.

## Coronavirus Supplement extension

Payment of the Coronavirus supplement has been extended to 31 December 2020, however, the amount of supplement payable will reduce. Previously, the supplement was paid to eligible recipients at a rate of $550 per fortnight but has reduced to $250 per fortnight from the reporting period commencing 25 September 2020. Centrelink will advise an individual of their reporting period.

The supplement will be paid to both new and existing recipients of eligible payments. Provided a person has at least some entitlement to an eligible payment, the full amount of the supplement will be received.

To be eligible for the supplement, an individual must be entitled to at least a part payment of a specific payment, including:

- JobSeeker Payment
- Youth Allowance
- Parenting Payment (Partnered and Single)
- Austudy
- ABSTUDY Living Allowance
- Farm Household Allowance, and
- Special Benefit.

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## Additional Economic Support Payments for pensioners and other eligible recipients

The Government will provide $2.6 billion for two additional Economic Support Payments of $250 to pensioners and other eligible recipients to assist them through the ongoing financial challenges they are facing as a result of COVID-19. Recipients include those receiving:

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

The payments will be made progressively from 30 November 2020 and then 1 March 2021.

## Reduction in Social Security Deeming Rates

Deeming rates used to assess income for social security payments are now set at historical low rates.

If you're single:

- The first $53,000 of your financial assets has the deemed rate of 0.25% applied. Anything over $53,000 is deemed to earn 2.25%.

If you're a member of a couple and at least one of you get a pension:

- The first $88,000 of your combined financial assets has the deemed rate of 0.25% applied. Anything over $88,000 is deemed to earn 2.25%.

## Additional 10,000 places provided in 2020-21 under the First Home Loan Deposit Scheme

This will allow an additional 10,000 first home buyers to obtain a loan to build a new dwelling or purchase a newly built dwelling with a deposit of as little as 5 per cent.

## Increases in the number of available Home Care Packages

The government will provide 23,000 additional high level home care packages across all package levels over the next six years.

## Tax-free cash flow boosts of between $20,000 and $100,000 for eligible employers

The Government is providing tax-free cash flow boosts of between $20,000 and $100,000 to eligible small and medium businesses and not-for-profit organisations that employ individuals. Eligible entities automatically receive payments upon lodgement of relevant activity statements for the March to September 2020 reporting periods.

## HomeBuilder grants of $25,000

HomeBuilder will provide eligible owner-occupiers (including first home buyers) with a grant of $25,000 to build a new home or substantially rebuild an existing home where a contract was entered into between 4 June 2020 and 31 December 2020 and building commenced within three months of the contract date. HomeBuilder is limited to new homes worth less than $750,000 and to renovations of between $150,000 and $750,000 where the total value of the property is less than $1.5 million pre-renovation.

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### Temporary relaxation of the Youth Allowance Independence Test

Individuals applying for Youth Allowance or ABSTUDY, who are aged 21 or younger, will have all periods between 25 March and 24 September 2020 recognised as contributing to the independence test, regardless of whether the employment requirements have been met.

Ordinarily, a person would need to work full time for at least 18 months in total, within a two-year period, to be assessed as independent for these payments. Where an applicant doesn't meet these requirements and fails to meet one of the other requirements to be assessed as independent, they are assessed as dependant and a parental income test will generally apply to determine eligibility.

In addition, Youth Allowance and ABSTUDY recipients who earn at least $15,000 from work completed in the agricultural industry between 30 November 2020 and 31 December 2021 will automatically meet the independence requirements. Parents must continue to meet current income test requirements.

*Date of effect: From November 2020*

## CONCLUDING COMMENTS

Whilst the income tax breaks grabbed the attention of the media, there were a multitude of changes in the 2020 Budget that will need to be worked through by singles, couples and families depending on your age and circumstance.

If you would like to discuss any of the details contained in the budget and how those details impact your personal situation, please do not hesitate to be in contact.



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