



Federal Budget update 2020/21

How the Budget may affect retirees

The announcements in this update are proposals unless stated otherwise. These proposals need to successfully pass through Parliament before becoming law and may be subject to change during this process.

What you need to know

- › The Budget is forecast to result in a record deficit peaking at \$966 billion (44% of GDP) in 2024. However, thanks to record low interest rates, this comes with only a minimal increase in interest payments.
- › **Jobs** are the Government's primary focus - creating jobs and keeping jobs, with the introduction of the JobMaker plan (including a \$100-\$200 per week hiring credit for eligible employees/employers and reimbursement of up to 50% of an apprentice's training) and the JobTrainer fund.
- › **Tax cuts** will play a major role and, unlike other economic downturns, there will be no deficits tax on high income earners. Stage 2 personal income tax cuts are to be brought forward 2 years, backdated to 1 July 2020, with tax savings for around 7 million Australians of \$2,000 or more.
- › **Business Owners** will be able to carry back tax losses from the 2019/20, 2020/21 and 2021/22 financial years to offset previously taxed profits in the 2018/19 or later financial years. This, coupled with the Instant Asset Write-off provisions and expanded access to tax concessions for small business, is calculated to generate spending and create jobs.
- › **Aged care** gets a boost with 23,000 additional home care packages. Great news for the 100,000 Australians on the waiting list for these packages.
- › **Social security** - aged pensioners, veterans and eligible concession card holders will get \$250 this year and another \$250 early in 2021. However, there is no mention of extending JobSeeker.
- › **Superannuation** measures called 'Your Future, Your Super' include a stronger focus on reducing fees and costs by increasing transparency and reducing the incidence of individuals with multiple super funds.

Overview

The 2020 Budget is all about jobs, jobs and spending to make more jobs. We already have JobSeeker and JobKeeper, and now we have JobMaker and JobTrainer.

Each announcement the Treasurer made was translated into jobs. Tax cuts for 11 million taxpayers equals 50,000 new jobs; expanding the instant asset write-off and the carry back of current losses is another 50,000 jobs.

Bringing forward the Stage 2 personal income tax cuts were the order of the day, and there will be no increases in tax in order to pay for spending. So unlike other economic downturns, there will be no deficits tax on high income earners.



Social Security and aged care

\$250 economic support payments

Two tax-free economic support payments will be paid to aged pensioners, veterans and eligible concession card holders - one payment in November 2020 and the other in early 2021.

Aged care support for older Australians

From 2020/21 the Government will provide 23,000 additional home care packages across all package level. This will reduce the waiting time for the 100,000 older Australians waiting for their packages to be funded.

The Commonwealth Continuity of Support Programme will be replaced with a new 'Disability Support for Older Australians'. This will allow older disabled Australians who are ineligible for the 'National Disability Insurance Scheme' to receive continued support.



Tax

Bringing forward income tax

From 1 July 2020, two years earlier than previously legislated, the Stage 2 low income tax offset (LITO) and the thresholds for the 19% and 32.5% personal income tax brackets are proposed to increase. Stage 3 of the Personal Income Tax Plan remains unchanged and commences in 2024/25 as legislated.

Current tax schedules

Tax rate	Thresholds for 2020/21 and 2021/22	Schedule from 1 July 2022	Schedule from 1 July 2024
Nil	0 - \$18,200	0 - \$18,200	0 - \$18,200
19%	\$18,201 - \$37,000	\$18,201 - \$45,000	\$18,201 - \$45,000
30%	-	-	\$45,001 - \$200,000
32.5%	\$37,001 - \$90,000	\$45,001 - \$120,000	-
37%	\$90,001 - \$180,000	\$120,001 - \$180,000	-
45%	\$180,000+	\$180,000+	\$200,000+

Proposed tax schedules

Tax rate	Schedule from 1 July 2020	Schedule from 1 July 2024
Nil	0 - \$18,200	0 - \$18,200
19%	\$18,201 - \$45,000	\$18,201 - \$45,000
30%	-	\$45,001 - \$200,000
32.5%	\$45,001 - \$120,000	-
37%	\$120,001 - \$180,000	-
45%	\$180,000+	\$200,000+

Tax offsets - 1 July 2020

The LITO will increase from \$445 to \$700 from 1 July 2020. The Government has not brought forward all the changes as per Stage 2 of the tax plan. The low to middle income tax offset (LMITO) will be retained in the 2020/21 financial year. The Government does not intend on retaining LMITO in the 2021/22 financial year. Under current legislation it is set to end in the 2022/23 financial year.

Current low income tax offset phase out

Taxable income	Low income tax offset - current
\$37,000 or less	\$445
\$37,001 - \$66,666	\$445 less [(income - \$37,000) x 0.015]
\$66,667 and over	Nil

Proposed low income tax offset phase out

Taxable income	Low income tax offset - proposed from 1 July 2020
\$37,500 or less	\$700
\$37,501 - \$45,000	\$700 less [(income - \$37,500) x 0.05]
\$45,001 - \$66,666	\$325 less [(income - \$45,000) x 0.015]
\$66,667 and over	Nil

The amount of the tax savings

The proposed bring-forward of the personal income tax thresholds, rates and tax offsets create the following future tax savings.

Taxable income	Current tax payable	Proposed tax payable	Tax saving [^]
\$20,000	\$0	\$0	\$0
\$40,000	\$4,467	\$3,887	\$580
\$60,000	\$11,067	\$9,987	\$1,080
\$80,000	\$18,067	\$16,987	\$1,080
\$100,000	\$25,717	\$24,187	\$1,530
\$120,000	\$34,117	\$31,687	\$2,430
\$140,000	\$42,097	\$39,667	\$2,430
\$160,000	\$49,897	\$47,467	\$2,430
\$180,000	\$57,697	\$55,267	\$2,430
\$200,000	\$67,097	\$64,667	\$2,430

[^] The above tax savings compare current tax rates with the proposed tax rates. Tax savings may differ from Government publications which compare 2017/18 tax rates with the proposed tax rates.

Capital gains tax exemption for granny flat arrangements

From 1 July 2021 a capital gains tax (CGT) exemption will be introduced for formal, written granny flat arrangements that are created, varied or terminated. This will encourage elderly Australians to enter formal written arrangements which provide them protection in the event of a family or relationship breakdown and reduce the risk of financial abuse.

Medicare levy thresholds

The Medicare levy thresholds have been increased for the 2019/20 financial year.

Singles	2018/19	2019/20
Singles	\$22,398	\$22,801
Families	\$37,794	\$38,474
Single - SAPTO*	\$35,418	\$36,056
Family - SAPTO*	\$49,304	\$50,191

For each dependent child or student, the family income thresholds increase by a further \$3,533 (previously \$3,471).

Private health insurance cover - increase in maximum age of dependants

From 1 July 2020, the Government will increase the maximum age of dependants allowed under Private Health Insurance policies from 24 years to 31 years and no age limit will apply for dependants with a disability.

What's next?

Most changes must be legislated and passed through Parliament before they apply. If you think you may be impacted by some of the Budget's proposed changes, you should consider seeking professional advice. A financial adviser can give you a clear understanding of where you stand and how you can manage your cash flow, super and investments in light of proposed changes.

If any of these proposals raise questions, concerns or opportunities for you, please contact us.