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2022 Federal Budget Adviser Analysis

The 2022 Federal Budget focused largely on supporting low and middle income earners, social security recipients and those looking to buy a home.

Overview

After the Treasurer's Budget speech and trawling through the Budget papers, it is actually a relief that superannuation and financial services were not at the forefront of the 2022 Federal Budget. Flashback to the 2019 pre-election announcements where reform of Financial services was front and centre.

A pre-election Budget will normally set the scene for the Government's election platform, and this Budget is no different. The 2022 Budget measures announced are very targeted and there is a clear focus on alleviating increases in cost of living, including:

- An increase in this year's Low and Middle Income Tax Offset (LMITO) by $420 at a cost of an extra $4.1 billion.
- Age pensioners and other social security recipients, Commonwealth Seniors Health Card and Pensioner Concession Card Holders will receive a $250 payment in April 2022, before the election.
- Dropping fuel excise by 22.1 cents a litre for 6 months.

The Budget Papers also confirm the 50% reduction in the minimum drawdown for super pensions will be extended to 2023. Interestingly, the Budget papers say the Government has made (not will make) this change. We hope this means the Government will change the super regulations before the May election for the sake of timing. Last year the regulations were not changed until June, leaving financial advisers and super funds under pressure to implement by 1 July.

This Government (as did previous Governments) is continuing to improve the public sector back office. ATO data from Single Touch Payroll will be shared with State revenue authorities – for payroll tax. The ATO will also extend the Tax Avoidance Taskforce for another two years, targeting (amongst others) high net worth individuals.

It's welcome to see the Women's Budget papers acknowledge the gender gap in median superannuation balances for persons aged 60–64 was 23.4% in 2018/19. However, no specific announcements were made to address the gap, other than the Women's Budget papers saying that "Getting more women into the workforce and into higher paying jobs is the most meaningful way to increase superannuation balances over time".

All in all – this is a targeted cost of living Budget for an election year. For financial advisers what is probably more important is what is already scheduled to happen later this year:

- From 1 July 2022 – the removal of the work test for making super contributions from those aged 67 to 74 and transferring the work test to claiming a personal tax deduction for the contributions.
- From 1 July 2022 – extending the ability to bring forward two years of non-concessional contributions cap from age 67 to 74.
- The Quality of Advice Review, to be headed by Michelle Levy, and due to report to Government by 16 December 2022.

A full analysis of the 2022 Budget measures follows.

Taxation

Increase to the low and middle income tax offset

Date of effect: 2021/22 financial year

The low and middle income tax offset (LMITO) will be increased by a one-off non-refundable $420 'cost of living tax offset' for the 2021/22 financial year. Combined with this one-off tax offset the maximum LMITO will increase to $1,500 per individual or $3,000 for couples combined. The LMITO will depend on the individual's income as shown below:

Taxable income	Proposed Offset	Current Offset
Up to $37,000	$675	$255
$37,001 to $48,000	$675 to $1,500	$255 to $1,080
$48,001 to $90,000	$1,500	$1,080
$90,001 to $125,999	$420 to $1,500	$0 to $1,080

The 2021/22 financial year will be the last year that the LMITO will be available. The current maximum LMITO is $1,080 for individuals and $2,160 for couples combined. Eligibility for LMITO is calculated automatically when the individual lodges their tax return, and may result in a tax refund, depending on the person's circumstances.

Advice tip:

The additional cost of living tax offset will increase the effective tax-free threshold for many clients. Advisers should take into account a client's effective tax-free threshold when recommending personal deductible super contributions.

Temporary cut in fuel excise tax

Date of effect: 30 March 2022 to 28 September 2022

Excise and excise equivalent customs duty rate that applies to petrol and diesel will be temporarily reduced by half to 22.1 cents for six months. Excise taxes for other fuel and petroleum-based products, other than aviation fuel, will also be reduced by half.

This measure aims to help individuals, families and businesses with cost of living pressures resulting from the increases in fuel costs which flow through to higher transport costs including the cost of goods and services.

The current rate of excise and excise equivalent duty applying to petrol and diesel is 44.2 cents per litre.

Increase in the Medicare levy low-income thresholds

Date of effect: 1 July 2021

The Government is proposing to increase the Medicare levy thresholds for singles, families, seniors, and pensioners from 1 July 2021, as follows:

Family situation	Current (2019/20)	Current Offset (2021/22)
Not senior or pensioner		
Single	$23,226	$23,365
Family*	$39,167	$39,402
Seniors and pensioners		
Single	$36,705	$36,925
Family*	$51,094	$51,401
* Plus amount per dependant	$3,597	$3,619

Deductions for external training courses for employees

Date of effect: 29 March to 30 June 2024

Businesses with an aggregated turnover of less than $50 million will be able to deduct an extra 20% of the cost incurred on external training courses they provide employees. These courses must be provided in Australia or online and delivered by entities registered in Australia. In-house or on-the-job training and training provided for non-employees are excluded.

Additional deduction for assets supporting digital adoption

Date of effect: 29 March to 30 June 2023

Businesses with an aggregated turnover of less than $50 million can deduct an extra 20% of the cost of business expenses and depreciating assets that support the business' digital adoption, such as portable payment devices, cyber security systems or subscriptions to cloud-based services. An annual cap of up to $100,000 for eligible expenditure will apply.

Lower tax instalments

Date of effect: 2022/23 financial year

In the 2022/23 financial year, the gross domestic product (GDP) adjustment will be set at 2%, which is significantly lower than the 10% rate that would have applied under the statutory formula. The ATO adjusts GST and pay as you go (PAYG) instalment amounts each year using a formula known as the GDP adjustment, which is based on data published by the Australian Bureau of Statistics.

Note that in the 2020/21 and 2021/22 financial years there was no GDP adjustment to work out quarterly GST and PAYG instalments.

Advice tip:

If this proposed measure becomes law it may help many small to medium business, sole traders and individuals who use the instalment amount method manage their cashflow better. However, while instalments will be offset against any tax payable, it does not reduce the total amount of tax.

Improved PAYG instalment system

Date of effect: 1 January 2024

Eligible companies with PAYG instalment obligations can opt to have their PAYG instalments calculated based on financial performance. Companies will automatically receive refunds of instalments if their financial performance deteriorates. The measure will improve processing times for over 500,000 companies and help small to medium sized businesses manage their cash flow better.

Enhanced sharing of single touch payroll data

Date of effect: not stated

Single touch payroll data will be shared with State and Territory Governments on an on-going basis to enable the pre-filling of payroll tax returns. States and Territories can invest more in their systems to improve lodgement accuracy, reduce compliance costs and save time for businesses with payroll tax reporting obligations.

Electronic lodgment of trust tax returns

Date of effect: 1 July 2022

Trustees of trusts will be able to opt to lodge income tax returns electronically. Electronic lodgement will enable the pre-filling of beneficiaries' tax returns and reduce errors and processing times.

Superannuation

Extension of minimum pension payment drawdowns

Date of effect: 1 July 2022

The temporary reduction in minimum drawdown rates for super pensions will be extended for 2022/23. The reduction applies to account-based and term allocated pensions. It also applies to transition to retirement pensions, but there is no change to the maximum drawdown limit. The below table summarises the reduced annual minimum pension payment factors for account-based pensions (including transition to retirement pensions).

Age on 1 July	Reduced minimum for 2022/23	Minimum for 2023/24 and future years
Under 65	2%	4%
65 to 74	2.5%	5%
75 to 79	3%	6%
80 to 84	3.5%	7%
85 to 89	4.5%	9%
90 to 94	5.5%	11%
95 or older	7%	14%

Usually, annual payments from term allocated pensions can be varied between 90% and 110% of the calculated annual payment. Under the temporary drawdown reduction measures, annual payments from term allocated pensions can be reduced to 45%.

Advice tip:

Advisers should check with individual super funds to understand:

- **whether a client who has previously nominated to receive the legislated minimum will automatically have the 2022/23 annual payment calculated at the reduced rates**
- **what steps a client needs to take to reduce their annual pension payments under the extended temporary reduction, and**
- **whether new instructions are required for 2022/23 where a client has previously requested to vary their minimum to the temporary reduced rate for the current financial year.**

Also remember, the next automated income stream review for social security purposes is scheduled for August. It is important to consider any social security implications for clients amending their minimums.

Social Security

Cost of Living Payment

Date of effect: April 2022

A $250 Cost of Living Payment will be paid in April 2022 to eligible recipients in recognition of increases in the cost of living. The payment will be made to eligible recipients of the following payments and concession card holders:

- Age Pension
- Disability Support Pension
- Parenting Payment
- Carer Payment
- Carer Allowance (if not in receipt of a primary income support payment)
- Jobseeker Payment
- Youth Allowance
- Austudy and Abstudy Living Allowance
- Double Orphan Pension
- Special Benefit
- Farm Household Allowance
- Pensioner Concession Card (PCC) holders
- Commonwealth Seniors Health Card holders
- Veterans' Affairs payment recipients and Veteran Gold card holders.

The $250 payment will not count towards the income test for payments, is non-taxable and clients can only receive one payment despite being eligible under multiple categories as above.

Enhanced Paid Parental Leave scheme

Date of effect: From 2021/22

The Dad and Partner Pay Scheme will be rolled into Parental Leave Pay to create a single scheme of up to 20 weeks. Paid Parental Leave can also be taken any time within two years of the birth or adoption of their child.

The income test will also be broadened to have an additional household income threshold of $350,000.

The change seeks to create greater flexibility between couples as to how they share care and work responsibilities for newborn or adopted children.

Currently, primary carers may be eligible to receive Parental Leave Pay of $772.55 per week, being the national minimum wage, for up to 18 weeks. Eligible recipients of Dad and Partner Pay also receive $772.55 per week but for a maximum of two weeks. Unused amounts are not transferable between members of a couple.

Eligible single parents can also access an additional two weeks (for a total of 20 weeks) of Paid Parental Leave under the scheme.

Advice tip:

Couples can choose how the 20 weeks of fully flexible leave is allocated between each member of the couple. Both members of the couple can work part-time, share primary carer duties and receive Paid Parental Leave at the same time.

Pharmaceutical Benefits Scheme – lowering the Safety Net threshold

Date of effect: 1 July 2022

From 1 July 2022, the Government will reduce the Pharmaceutical Benefit Scheme (PBS) Safety Net thresholds. For general patients, the PBS threshold will reduce from $1,542.10 to $1,457.10 and, for concessional patients, it will reduce from $326.40 to $244.80.

This change will result in clients reaching their Safety Net sooner each year. Once the PBS Safety Net is reached, concessional patients receive their PBS medicines at no cost for the rest of the calendar year. General patients who reach their PBS Safety Net will only pay the concessional co-payment rate which is currently $6.80 per prescription.

Home ownership

First, Family and Regional Home Guarantees

Date of effect: 1 July 2022

The number of guarantees provided under the Home Guarantee Scheme will increase to 50,000 for three years from 1 July 2022. This will reduce to 35,000 a year on an ongoing basis.

The 50,000 guarantees will be allocated as follows.

Guarantees per year	Details
35,000	On an ongoing basis as part of the First Home Guarantee (previously called First Home Loan Deposit Scheme)
5,000	As additional Family Home Guarantee until 30 June 2025
10,000	For newly created Regional Home Guarantee from 1 October 2022 until 30 June 2025

The First Home Guarantee provides a government loan guarantee of up to 15% to eligible new first home buyers with at least a 5% deposit.

The Family Home Guarantee supports single parent households by providing a loan guarantee for home buyers with at least a 2% deposit, regardless of previous home ownership status.

The Regional Home Guarantee will assist eligible participants who have not owned a home for five years to purchase a new home in a regional location. Part of the eligibility is the requirement to have a 5% deposit.

Advice tip:

The First, Family and Regional Home Guarantees can be used in addition to other support measures including First Home Super Saver Scheme and state-based measures, such as stamp duty concessions and first home owner grants. Some lenders may require a deposit greater than minimum under the specific scheme.

Any questions?

If you have any questions, please speak with your financial adviser or call us on 1300 650 414 between 8 am and 6 pm (AEST), Monday to Friday.

WMA-30230 (54974) 0322