

2020 Federal Budget Update

Introduction

Budget 2020-21 is firmly billed as a recovery plan, to move Australia from crisis response towards rebuilding the economy following the once-in-a-century shock caused by the COVID-19 pandemic.

It is no surprise that the Budget presented last night had just one job in mind (pun intended) and that is to spark the economy back to life with a huge dose of fiscal spending.

The kindling for the recovery is accelerated tax cuts and cash splashes for pensioners and other welfare recipients to move people from saving to spending in the short term.

This is supported by massive incentives for businesses to invest, some smart moves to support businesses that were viable pre-COVID-19 with tax relief as well as a subsidy to hire unemployed people. These measures along with a further boost to infrastructure spending are all aimed at getting business back on its feet and fuel the longer-term economic recovery.

There were also some changes to Aged Care support in response to the Royal Commission and COVID-19.

How will this affect you?

Read on for our summary of the relevant changes, and please speak to your FMD adviser if you have any questions about your personal circumstances.

Personal Income Tax

Personal income tax cuts brought forward

'Stage two' personal income tax cuts from last year's Budget will be brought forward two years and backdated to 1 July 2020. From this date the 19% marginal tax rate bracket will increase from \$37,000 to \$45,000 and the 32.5% marginal tax rate bracket from \$90,000 to \$120,000.

For those earning up to \$120,000 per, this will mean an extra \$2,000 in your FY21 tax return and the government wants you to spend it.

'Stage three' tax cuts remain scheduled for 1 July 2024, where the 32.5% tax rate will reduce to 30% and will also be extended to \$200,000 (effectively removing the 37% tax bracket completely). This means that the 45% tax bracket will then start from \$200,000.

Low Income Tax Offset (LITO)

To further support low income earners, from 1 July 2020, LITO is proposed to increase to \$700 from \$445 for those earning under \$37,000. The increased LITO will be reduced at a rate of 5 cents per \$1 for income between \$37,500 and \$45,000 and 1.5 cents per \$1 for income between \$45,000 and \$66,667.

The Low and Middle Income Tax Offset is unchanged.

Medicare Levy for low income earners

The Medicare Levy low income threshold will increase for everyone to account for the rise in the cost of living.

Superannuation

There are no material changes to superannuation rules with minor changes mostly to benefit younger accumulators. In particular, from 1 July 2021, an existing superannuation account will be 'stapled' to a member to avoid creating a new super account when a person changes jobs.

Infrastructure

Billions of dollars have been planned for infrastructure spending around the nation. These include \$7.5 billion (brought forward) on road/rail projects, \$2 billion (new) on road safety upgrades, \$1 billion towards footpaths/street lighting, and \$2 billion (over 10 years) on water infrastructure upgrades.

First Home Buyers

The Federal Government has offered an additional 10,000 places in the First Home Loan Deposit this financial year (up from the current 10,000 per year).

This scheme assists first home buyers with as little as a 5% deposit to access loans without having to pay lenders mortgage insurance. Eligibility is limited.

Disclaimer: This document has been prepared by FMD Financial Pty Ltd and FMD Financial (QLD) Pty Ltd who are Corporate Authorised Representatives of FMD Advisory Services Pty Ltd [AFSL 232977] and is intended to be a general overview of the subject matter. The document is not intended to be comprehensive and should not be relied upon as such. We have not taken into account the individual objectives or circumstances of any person. Legal, financial and other professional advice should be sought prior to applying the information contained in this document. Advice is required before any content can be applied at a personal level. No responsibility is accepted by FMD Financial Pty Ltd and FMD Financial (QLD) Pty Ltd.

Melbourne P (03) 9620 4633
Adelaide P (08) 8110 4888
Brisbane P (07) 3852 1966

www.fmd.com.au

2020 Federal Budget Update *(continued)*

Business Support

Instant Asset Write-off

The instant asset write-off has been greatly expanded. Businesses with less than \$5 billion of annual turnover are now able to write-off the *entire cost* of eligible depreciable assets installed before 30 June 2022. This means that 99% of businesses will be able to access the scheme and encourages them to bring forward their investments and create more jobs.

Estimated Cost: \$27 billion

Carried Back Losses

To support the ongoing viability of previously strong businesses making losses in the current environment, the Government is making changes to how company losses are treated, to get money back to these businesses now.

Currently, business losses are carried forward against future profits. Now, businesses are able to offset FY 2020 – 2022 losses against any profits in the 2019 FY and claim a refund on tax paid. Again, this scheme is only applicable to businesses with an annual turnover under \$5 billion.

Estimated Cost: \$5 billion

JobMaker

As has been widely publicised, younger Australians have been disproportionately impacted by recent job losses. JobMaker provides businesses with an incentive to hire younger Australians currently on the JobSeeker, Youth Allowance or Parenting Payment.

Businesses will receive \$200 per week (\$10,400 p.a.) for eligible new employees under 30, and \$100 per week (\$5,200 p.a.) for new employees between 30 and 35.

Estimated cost: \$4 billion.

Social Security

Further Economic Support Payments

The Government announced 2 payments of \$250 to recipients of certain Government payments and concession card holders – with a focus on encouraging spending amongst senior Australians and other welfare recipients who have been adversely affected by the COVID-19 pandemic. These payments will be tax-free

and not assessable income for means-testing - and will be rolled out in December 2020 and early 2021.

Women's Economic Security

With women being disproportionately represented in job losses during the pandemic, the Government has announced \$240 million in funding for the recovery of those jobs, alongside other measures for future financial security and workplace safety for women.

Paid Parental Leave Work Test

To support new parents who had their employment interrupted during the pandemic, the Government has modified the work test condition from 10 out of the first 13 months before birth/adoption of the child to 10 out of the first 20 months. This change will allow an estimated 9,000 mothers and 3,500 fathers to reclaim paid Parental Leave entitlements.

Aged Care

The Government is introducing close to \$3 billion in measures to address the Aged Care Royal Commission recommendations and to address COVID-19 related issues.

More Funding for Home Care Packages

The Government will provide \$2 billion over four years from 2020-21 to further support access to those wishing to stay home longer but are in need of aged care help. This includes a further 23,000 home care packages to be released over four years from 2020-21 across all package levels to improve waiting times.

Aged Care COVID-19 Response Package

Additional funding will be provided over two years from 2019-20 for senior Australians, who are frail or have self-isolated due to a higher risk of contracting COVID-19, to provide access the *Commonwealth Home Support Program* and to guarantee the supply of food, groceries and prepared meals. While funding will also be provided in 2020-21 to support residents of aged care facilities who temporarily leave care to live with their families.

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.