Challenger
Federal Budget Report 2022-23

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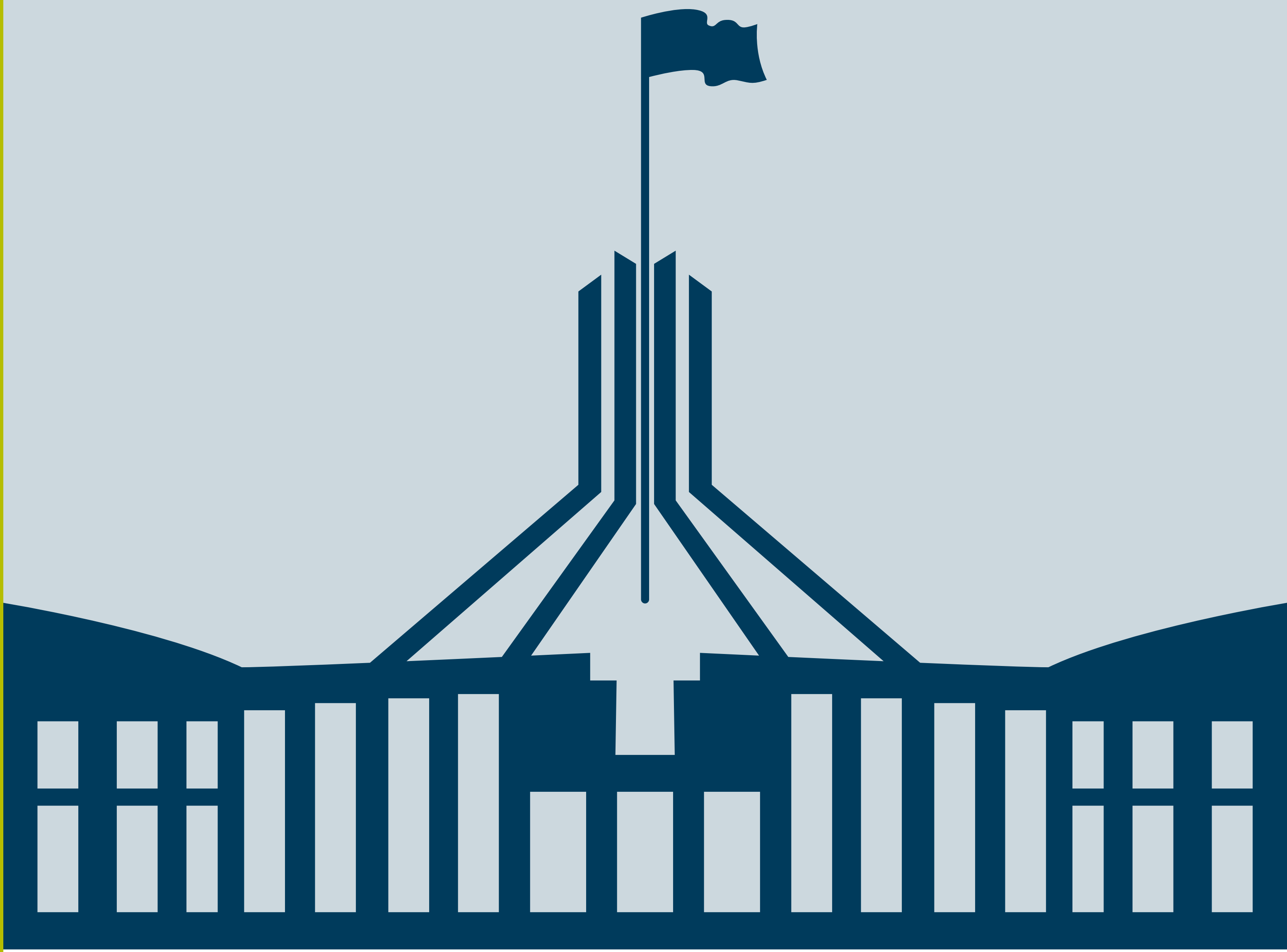

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At 7:30 pm on Tuesday 29 March 2022, the Treasurer, Josh Frydenberg, released the Government's 2022-23 Budget. The Budget represents the Government's plan for an economy recovering from a continuing global pandemic and challenged by a variety of other domestic and international factors. The Budget also represents the plan that the Government will take to a Federal election, due on or before 21 May 2022.

The Budget features a number of measures that will impact your advice for both pre and post retiree clients, including aged care clients, and these measures are the focus of this analysis.

It is important to note that at this time these proposed measures are not yet law and could change through implementation.

Superannuation

Extension of the 50% reduction to the superannuation minimum payment requirements

The Government has announced the extension of the 50% reduction to the superannuation minimum drawdown requirements for account-based income streams for a further year until 30 June 2023.

Income streams where the lower minimum requirements can be applied include:

- account-based and allocated pensions;
- account-based and allocated annuities; and
- market- linked pensions (term allocated pensions).

The reduced minimum requirements do not apply to non-account-based income streams such as fixed term annuities and lifetime annuities.

The following table summarises the reduced minimum payment requirements for account-based pensions.

Table 1: Reduced minimum payment requirements for account-based pensions

Age	2019–20 to 2022–23 financial years (inclusive)	From 1 July 2023
Under 65	2.0%	4.0%
65–74	2.5%	5.0%
75–79	3.0%	6.0%
80–84	3.5%	7.0%
85–89	4.5%	9.0%
90–94	5.5%	11.0%
95 +	7.0%	14.0%

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Advice considerations

Individuals with account-based pensions can consider taking the reduced minimums as a pension payment and withdraw an appropriate amount as a lump sum to meet cash flow requirements. Lump sum withdrawals from an account-based pension are debits for the purposes of an individual's transfer balance account, and as such can increase their available cap space to be used in the future, for example, to help maximise the amount they can receive as a death benefit income stream.

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Tax

One-off cost of living tax offset for low and middle-income tax offset recipients

The Government stated that it will implement a one-off $420 cost of living tax offset for low- and middle-income tax offset (LMITO) recipients in the 2021-22 financial year. All other features of the current LMITO remain unchanged. When combined with LMITO, this will mean eligible low- and middle-income earners will receive up to $1,500 for a single income household, or up to $3,000 for a dual income household. All LMITO recipients will benefit from the full $420 increase.

The Government estimates this will benefit over 10 million individuals. The LMITO for the 2021-22 financial year will be paid from 1 July 2022 when individuals submit their tax returns.

Table 2: Eligibility for LMITO and Cost of living tax offset for 2021-22

Taxable income	LMITO	Cost of living tax offset	Total tax offset	Estimated number of people who will benefit
Nil to $37,000	$255	$420	Up to $675	1.8m
From $37,001 to $48,000	$255 plus 7.5 cents for every dollar above $37,000, up to a maximum of $1,080	$420	$675 to $1,500	1.6m
From $48,001 to $90,000	$1,080	$420	$1,500	4.8m
From $90,001 to $126,000	$1,080 minus 3 cents for every dollar of the amount above $90,000	$420	$420 to $1,500	1.9m
Above $126,000	$0	$0	$0	0

Source: Budget Overview 'Cost of Living', ATO 'Low and middle-income earner tax offsets'

Advice considerations

Individuals with expected taxable income at or near the cut-off of $126,000 can consider making personal deductible contributions to reduce taxable income below $126,000 to at least qualify for $1 of the LMITO. This will allow them to also qualify for the one-off $420 cost of living tax offset.

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Temporary reduction in fuel price

There will be a temporary reduction of 50% in excise and excise-equivalent custom duty rates for all petrol and diesel for six months. The excise and excise-equivalent customs duty rate for all other fuel and petroleum-based products (excluding aviation fuels) will also be reduced by 50% for a period of six months. This will decrease excise on petrol and diesel from 44.2 cents per litre to 22.1 cents per litre. This measure will commence from 12:01 am (AEDT) on 30 March 2022 until 11:59 pm (AEST) on 28 September 2022.

To ensure that the reduced rates are passed on to the end consumer, the Australian Competition and Consumer Commission will monitor the price behaviour of retailers.

Allowing tax deductibility of COVID-19 test expenses

From 1 July 2021, expenses incurred on COVID-19 tests (both Polymerase Chain Reaction and Rapid Antigen Tests) in order to attend work are allowed as a tax deduction. This applies to employees who are required to attend work as well as those who have the option to work remotely. Fringe Benefit Tax (FBT) will also not apply to businesses where COVID-19 tests are provided to the employees for work-related purposes. This measure is ongoing and applies to future years as well.

Employee share schemes – expanding access and further reducing red tape

The Government will expand access to employee share schemes and further reduce red tape. Where employers make offers in connection with employee share schemes in unlisted companies, participants can invest up to:

- $30,000 per participant per year, an increase from the current $5,000 per year limit, accruable for unexercised options for up to five years, plus 70% of dividends and cash bonuses; or
- any amount, if it would allow them to immediately take advantage of a planned sale or listing of the company to sell their purchased interests at a profit.

The Government will also remove regulatory requirements for offers to independent contractors, where they do not have to pay for interests.

At this time, the effective date of this measure is not yet known.

Reduction to the GDP uplift factor for tax instalments

Each year GST and pay as you go (PAYG) instalment amounts are adjusted using a formula known as the gross domestic product (GDP) adjustment.

For 2022-23 income year, the GDP uplift factor will be set to 2% instead of 10% (under the statutory formula) for PAYG and GST instalments. This reduction will help small businesses, sole traders, and individuals with investment income to improve their cash flow.

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This measure will apply to those small to medium businesses who are eligible to use the instalment methods. These include businesses having annual aggregated turnover of up to $10 million for GST instalments and those having annual aggregated turnover of up to $50 million for PAYG instalments. The reduced rate will apply to instalments that related to 2022-23 income year and will fall due once the measure receives Royal Assent.

Increase to Medicare levy low-income thresholds

The 2021-22 financial year Medicare levy low-income thresholds will be indexed for individuals and families. The threshold for singles will increase to $23,365 per annum and, for families with no children, increase to $39,402 per annum.

Table 3: Medicare levy thresholds

	2021-22	2020-21
Single	$23,365	$23,226
Single eligible for SAPTO	$36,925	$36,705
Family	$39,402	$39,167
Couple eligible for SAPTO	$51,401	$51,094
Additional threshold for each dependent child	$3,619	$3,597

Small business

Skills and training boost

The Government is introducing a new 20% bonus deduction for expenditure by small businesses with annual turnover less than $50 million to train and upskill their employees.

This boost means small businesses can claim a deduction for 120% of the cost of external training courses delivered to employees in Australia or online, and delivered by providers registered in Australia, and is expected to deliver $550 million in tax relief. There will be some exclusions including for in-house or on-the-job training and expenditure on external courses for persons other than employees.

The boost will apply to eligible expenditure incurred from 7:30 pm (AEDT) on 29 March 2022 until 30 June 2024. The boost for eligible expenditure incurred by 30 June 2022 will be claimed in tax returns for 2022-23, and for eligible expenditure incurred between 1 July 2022 and 30 June 2024 will be claimed in tax returns for the financial year in which the expenditure is incurred.

Technology investment boost

The Government is introducing a new 20% bonus deduction for expenditure by small businesses with annual turnover less than $50m to support digital adoption through investment in items such as an online sales platform, cyber security enhancements, cloud computing and digital tracking for livestock. This boost, expected to provide $1 billion in tax relief, means small businesses can claim a deduction for 120% of expenditure up to an annual cap of $100,000 per year on business expenses and depreciating assets that support their digital adoption, such as portable payment devices, cyber security systems or subscriptions to cloud-based services. The Government estimates around 3.6 million small businesses are eligible to access this new boost.

The boost will apply to eligible expenditure incurred from 7.30 pm (AEDT) on 29 March 2022 until 30 June 2023. The boost for eligible expenditure incurred by 30 June 2022 will be claimed in tax returns for 2022-23, and for eligible expenditure incurred between 1 July 2022 and 30 June 2023 will be claimed in tax returns for the financial year in which the expenditure is incurred.

Social security

Cost of Living Payment

The Government will make a one-off $250 Cost of Living Payment to eligible recipients to help with the higher cost of living pressure. The payment will be made from 28 April 2022 and will not be taxable and will not be counted as income for Social Security purposes.

The Cost of Living Payment will be made to people in receipt of the following on 29 March 2022:

- 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 holders
- Commonwealth Seniors Health Card holders
- Eligible Veterans' Affairs payment recipients and Veteran Gold Card holders

Only one Cost of Living Payment can be received per person. The payment will only be available to Australian residents.

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Lowering the safety net thresholds for the Pharmaceutical Benefits Scheme

The Government will reduce the Pharmaceutical Benefits Scheme (PBS) safety net thresholds from 1 July 2022. The thresholds will reduce from $326.40 to $244.80 for concessional patients and from $1,542.10 to $1,457.10 for general patients.

On reaching the PBS safety net threshold, concessional patients receive their PBS medicines at no cost for the rest of the calendar year and general patients receive their medicines at the concessional co-payment rate which is currently $6.80 per prescription.

The Pharmaceutical Benefits Scheme Safety Net thresholds will reduce from $326.40 to $244.80 for concessional patients and from $1,542.10 to $1,457.10 for general patients.

Aged care

Additional funding for the Five Pillars over Five Years aged care reform plan

The Government will provide additional funding to implement the Government's response (Five Pillars over Five Years) to the Royal Commission into Aged Care Safety and Quality:

- $5.4 million in 2022-23 to continue consultation on the design of the wider aged care reforms, including a new regulatory framework for the Support at Home Program.
- $20.1 million over three years from 2022-23 to complete implementation of the Australian National Aged Care Classification (AN-ACC) and support the transition of facilities to the new funding model over a two-year period.
- $345.7 million over four years from 2022-23 to improve the administration of medication management for residential aged care residents.
- $22.1 million over three years from 2022-23 to establish a fund and invite states and territories to put forward proposals to trial new models of multidisciplinary outreach care for residents in residential aged care facilities.
- $18.3 million over two years from 2021-22 to extend arrangements for the third-party Quality Assessor surge workforce to conduct residential aged care site audits.
- $32.8 million over four years from 2022-23 (and $2.8 million per year ongoing) to provide additional clinical placements for students in the care and support sectors and to expand the Rural Health Multidisciplinary Training program to five new aged care demonstration sites.
- $10.8 million in 2022-23 for the Cross-Agency Taskforce on Regulatory Alignment to implement the next stage of regulatory reforms across the aged, disability and veterans' care sectors.
- $6.9 million over three years from 2022-23 to support co-operatives and other collaborative business models access the aged, disability and veterans' care sectors. The Business Council of Co-operatives and Mutuals will be funded to support the start-up and development of cooperative and mutual enterprises, and deliver business resources and professional support.
- $6.1 million in 2022-23 to extend the aged care system regional stewardship outreach model for a further six months to 31 December 2022 to strengthen governance of the aged care system.

Aged Care Sector COVID-19 Response Package

The Government will provide additional funding over five years from 2021-22 to support older Australians in the aged care sector with managing the impacts of the COVID-19 pandemic:

- $215.3 million over two years from 2021-22 to provide bonuses of up to $800 to aged care workers in residential aged care and home care.
- $124.9 million in 2022-23 to extend and expand funding for the Aged Care Preparedness program that supports aged care providers to manage and prevent outbreaks of COVID-19 and prepare providers to transition to living with COVID-19.

- $50.4 million over four years from 2022-23 to improve the capability and capacity of the residential aged care workforce to deliver vaccination services to residents and staff.
- $37.6 million for two years from 2022-23 to establish grants for Infection Prevention and Control training for qualified nurses in residential aged care facilities.
- $22.1 million in 2022-23 to extend in-reach screening for COVID-19 in residential aged care facilities using Polymerase Chain Reaction technology for a further three months to 30 September 2022.
- $7.9 million in 2022-23 to extend and expand the commissioned home visits initiative for COVID-19 positive patients in residential aged care facilities for a further three months to 30 September 2022.

Progress of previously announced superannuation and retirement income legislative measures

A lot has happened over the last 12 months, making it difficult to track what has or hasn't been legislated. Here is an overview of the progress of a number of these measures:

Legislated and effective from 1 July 2022

- Repeal of the work test for those under age 75 who make non-concessional and salary sacrifice contributions.
  – Those aged 67-74 and wanting to make personal deductible contributions still need to meet the work test or meet the one-off work test exemption.
- Ability for those aged 74 or under at the start of the financial year to use bring-forward arrangement subject to total superannuation balance restrictions.
- Eligibility age for downsizer contributions reduced to 60 or over from 65 or over.
- Removing the $450 per month threshold for Superannuation Guarantee eligibility.
- The introduction of the Retirement Income Covenant places an obligation on superannuation fund trustees to formulate, review regularly and give effect to a retirement income strategy, outlining how they plan to assist their members to balance key retirement income objectives including:
  – maximising their retirement income;
  – managing risks to the sustainability and stability of their retirement income, including:
    - investment risk
    - longevity risk
    - inflation risk, and;
  – having some flexible access to savings during retirement.

What hasn't been legislated

- Two-year amnesty on commutations of certain non-commutable legacy pensions.
- Relaxation of SMSF residency rules by allowing temporary absences of up to five years under the central management and control and repeal of the active member test.
- Disregarding excess transfer balance tax which cannot be rectified upon commutation and restarting of certain legacy pensions.

What's not changing

- Superannuation Guarantee will be 10.5% from 1 July 2022 and will increase by 0.5% every year so that it will be 12% from 1 July 2025.
- The legislated personal income tax cuts will continue in accordance with the planned timetable.

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