Special Federal Pandemic Budget 2020

On Tuesday 6 October 2020, the Treasurer, Josh Frydenburg delivered a historic Federal Budget, which had been delayed from May as a result of the COVID-19 Pandemic. The Budget outlined a plan to cushion the blow of COVID-19 and supporting economic recovery by focusing on job retention and creation.

Superannuation

The government has identified several structural flaws in the superannuation system which it says are negatively impacting many Australian's retirement savings. These include:

- The creation of multiple unintended superannuation accounts due to job changes.
- Management and administration fees being too high across the superannuation system.
- Existence of too many underperforming super products.

The Budget outlines several key reforms to the system which have been called the "Your Future, Your Super" reforms. The government claims these reforms will save Australians $17.9 billion over the next decade.

Changes to default superannuation arrangements

Currently, unless an employee nominates their own super fund, employers are required to create a new account for the employee within their default superannuation arrangement.

From 1 July 2021, employers will no longer create a new super account in their default arrangement for new employees unless the employee actively selects this option. Instead, if an employee does not nominate a fund, employers will be required to log into ATO online services, obtain information about the employee's existing fund and pay their contributions to this account. If the employee has multiple accounts, the employer will be required to select which existing fund to pay contributions to.

If an employee does not have any existing superannuation accounts, the employer will then open an account for them within their default superannuation arrangement.

Online performance comparison tool

The government has proposed to establish a new online tool to enable members to compare the performance of superannuation products. This tool will be called "YourSuper" and will be available from 1 July 2021. According to the government, this tool will allow members to:

- View a table of MySuper products that has been ranked by fees and performance.
- Show a member's current super accounts and if the member has more than one account, prompt the member to consider consolidating these accounts.

Our concerns - misinformation on corporate super arrangements

Many employers have established customized corporate super arrangements. These arrangements often feature significantly discounted fees and higher performance than the base product. Based on the information currently available, it does not appear that this comparison tool will show a member fee and performance ranking for their super account based on the actual fees and performance of their employer's custom superannuation arrangement, rather it will show the fees and performance of the standard product instead.

This is likely to lead to confusion and the provision of information to members that does not accurately reflect their situation. In doing so, members may be led to a decision based on misinformation.

Accountability for underperforming super funds

From 1 July 2021, MySuper products will be subject to an performance test. Funds that do not meet the performance threshold will be required to inform members of their failure by 1 October that year and direct members to the YourSuper comparison tool where the fund will be listed until their performance improves.

If a fund fails to meet the performance benchmark over two years, the fund will not be permitted to take on new members until their performance improves.

This annual performance test will also be extended to non-MySuper products from 1 July 2022.

Super Guarantee (SG) increase timeline not altered

In the leadup to the Budget there was much discussion about the possibility that the currently legislated increase to the SG contribution rate from 9.5% to 10% from 1 July 2021 would be delayed. The government however did not proceed with this meaning the SG increase timetable remains unchanged.

Superannuation Trustee Obligations

The government intends to strengthen the obligations imposed on superannuation trustees to ensure their actions are consistent with members' retirement savings being maximised. This includes a new duty to act in members' best financial interests.

Personal Income Tax

Stage 2 tax cuts brought forward to 1 July 2020

The government announced that it will bring forward Stage 2 of the tax reform plan announced in previous budgets. This stage was originally due to commence from 1 July 2022 but will now apply retrospectively from 1 July 2020. Stage 2 included three changes to the current arrangement:

- Low Income Tax Offset (LITO) increased from $445 to $700.
- Top income threshold for the 19% tax bracket increased from $37,000 to $45,000.
- Top income threshold for the 32.5% tax bracket increased from $90,000 to $120,000.

The table below outlines the new brought forward thresholds which will apply from 1 July 2020 once legislation has been passed:

Table 1: Brought forward Stage 2 tax cuts

Rate[1]	Current	New 1 July 2020 (applies retrospectively)	From 1 July 2024
Nil	$0-$18,200	$0-$18,200	$0-$18,200
19.0%	$18,201-$37,000	$18,201-$45,000	$18,201-$45,000
32.5%	$37,001-$90,000	$45,001-$120,000	$45,001-$200,000
37.0%	$90,001-$180,000	$120,001-$180,000	N/A
45.0%	$180,001 and over	$180,001 and over	$200,001 and over

[1]Excluding Medicare Levy.

Bringing forward these tax cuts will provide tax relief for around 11.8 million employees. The table below shows the estimated tax relief provided by these changes at various income levels.

Table 2: Reduced Tax Liabilites

Taxable Income ($)	New 2020-21 Tax Liability ($)	Decrease in Tax Liability ($)	Decrease in Tax Liability (%)
$40,000	$3,887	-$1,060	-21.4%
$60,000	$9,987	-$2,160	-17.8%
$80,000	$16,987	-$2,160	-11.3%
$100,000	$24,187	-$2,445	-9.2%
$120,000	$31,687	-$2,745	-8.0%
$140,000	$39,667	-$2,565	-6.1%
$160,000	$47,467	-$2,565	-5.1%
$180,000	$55,267	-$2,565	-4.4%
$200,000	$64,667	-$2,565	-3.8%

Increased Low and Middle Income Tax Offset remains

The LMITO was originally intended to be removed when Stage 2 of the tax reform plan commenced on 1 July 2022. With Stage 2 of the tax reform plan now commencing on 1 July 2020, the LMITO would previously not have applied this financial year. The government has announced however, that it will leave the LMITO in place for the 2020-21 financial year and it will cease from 1 July 2021.

Business Tax

Full asset write-off extended to 30 June 2022

Until 30 June 2022, businesses with turnover of up to $5 billion are able to write off the full value of any eligible depreciable assets of any value in the first year they are used or installed ready for use.

Carry-back losses

In an effort to provide further stimulus to businesses struggling as a result of the COVID-19 pandemic, companies with a turnover of less than $5b will be able to offset tax losses incurred in the 2019-20, 2020-21 and 2021-22 financial years against profits made in or after the 2018-19 financial year. Usually businesses are only able to carry-forward losses meaning that a business would usually need to make a future profit before being able to claim any previous losses.

Retraining to be exempt from FBT

The government will provide an exemption for employer provided/ funded retraining activities from FBT to encourage business to retain and redeploy employees to new roles within their business.

Employment

JobMaker Hiring Credit

The government has announced a new JobMaker Hiring Credit that will provide an incentive for up to 12-months to business that take on additional eligible young employees aged between 16 and 35. The incentive provides a $200 per week subsidy for employees aged 16 to 29 and $100 per week for employees aged 30-35. An eligible young employee is someone who has received JobSeeker, Youth Allowance or Parenting payment for at least one of the 3 months prior to their hiring and must work a minimum of 20 hours per week, averaged over a quarter.

To be eligible for the subsidy, a employer must show that employing the elibigle young person would increase their overall headcount and payroll based on total headcount on 30 September 2020 and total payroll in the three months to 30 September 2020.

JobTrainer Fund

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2020 Women's Economic Security Statement

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Additional support for apprentices and trainees

Between 5 October 2020 and 30 September 2021, the government will provide a 50% wage subsidy (up to $7,000 per quarter) to businesses who take on a new apprentice or trainee. This assistance is designed to support 100,000 new apprentices and builds on the Apprentices and Trainees Wage Subsidy that was previously announced as part of the government's COVID-19 stimulus package.

Housing

10,000 additional First Home Loan Deposit Scheme places

The First Home Loan Deposit Scheme (FHLDS) will have extra 10,000 places for first home buyers purchasing a new or newly-built home.

To be eligible for the FHLDS, you must be an Australian citizen, over 18 years of age and with taxable income under $125,000 (singles) or $200,000 (couples) and be intending to be owner-occupiers.

As with the existing program, it allows people to buy with a deposit of as little as 5%, much less than the usual deposit of about 20%. The government guarantees the other 15% of the deposit and buyers can thus avoid paying for lenders mortgage insurance. These loans will be available from 27 lenders offering competitive interest rates.

Eligible properties include:

- newly built houses, townhouses or apartments,
- a house and land package,
- land and a separate contract to build a home,
- off-the-plan apartment or townhouse.

The additional guarantee will run until 30 June 2021 but is expected to be fully taken up well before this date as has occurred with previous places.

The government has announced new caps for the scheme, given newly built homes are usually more expensive than existing homes for first home buyers. The caps range from $400,000 up to $950,000.

Other announcements

One-off additional payments for pensioners

Following on from the $750 payment in April this year, five million age and disability pensioners will receive two additional one-off $250 payments, one in December and March 2021.

Infrastructure investment

The government has announced a further $14 billion in infrastructure investment which is expected to support around 40,000 jobs. This includes fast-tracking "shovel-ready" jobs such as small scale road safety projects.

Environment

The government will ban the export of plastic, paper, rubber and glass waste. The government estimates this will prevent around 645,000 tonnes of waste ending up in landfill every year. In addition, the government announced a $240.6 million funding package to modernize recycling infrastructure and reduce waste as well as $47.4 million to protect and restore Australia's oceans.

The government has also committed $29.1 million to reduce the risk of chemical contamination on Commonwealth land.

Capital Gains Tax exemption for granny flats

The government has proposed to exempt granny flats from capital gains tax (CGT) where the granny flat is occupied by a family member. To be eligible for the exemption there needs to be a formal written agreement in place permitting the family member to reside on the premises (either in the same home or a separate building).

Healthcare and COVID-19

The government announced and additional $4.9 billion for a range of critical healthcare services during the pandemic including:

- $1.7 billion to secure access to 84 million doses of potential vaccines being developed at the University of Oxford and the University of Queensland.
- $112 million to further support Medicare Telehealth and $148 million for mental health support services.
- $750 million for primary health care system including funding for COVID-19 testing and dedicated respiratory clinics.
- $1.6 billion funding for aged care including a $245 million to assist aged care facilities to effectively manage COVID-19.

Support for primary industries

The government announced a number of initiatives aimed at supporting primary industries, including:

- An additional $317 million for the International Freight Assistance Mechanism to support key export markets.
- $115 million support package over four years to provide assistance to farmers recovering from the current drought.
- Additional targeted support for fishing, forestry and agricultural industries.