

## 2021–22 Special Budget Edition

### Budget overview

On Tuesday 11 May, the Treasurer, the Hon Josh Frydenberg MP, delivered the Federal Budget 2021–22, his third Budget.

Two years ago, in his first Budget speech, the Treasurer announced that the Budget “is back in the black”. One pandemic later, there is only red.

So far, the Government has committed \$291 billion (or 14.7% of GDP) in direct economic support for individuals, households, and businesses. The Budget deficit for 2020–21 is forecast to be \$161 billion, although that is almost \$53 billion less than what was forecasted in last year’s Budget. The Treasurer has not produced an austerity Budget – net debt as a share of GDP is predicted to peak at just over 40% in 2024–25. “Debt and deficit” are seemingly no longer bad.

As emergency COVID-19 support concludes, the Government says it will focus on the transition to sustainable private sector-led growth to create jobs. The unemployment rate is forecast to fall to 4.75% by mid-2023 (lower than pre-pandemic levels).

The Government acknowledges that the continued economic recovery will rely on the effective containment of COVID-19 outbreaks both in Australia and abroad and will be a key factor in the timing of the reopening of international borders, which could weigh on the outlook for the tourism and education sectors.

Further, ongoing global trade tensions and the potential for further trade actions continue to pose risks to the outlook for Australian exports. More broadly, downside risks to the outlook for the global economy from ongoing outbreaks of the virus in major economies, including India, could have implications for Australia’s domestic economy.

If you want to read the Budget papers, you can find them at [budget.gov.au](https://budget.gov.au).

## Big picture highlights of this year's Budget

<p style="text-align: center;"><b>Deficit</b></p> <p style="text-align: center;">\$161 million in 2020–1; projected to fall to \$106.6 billion in 2021–22</p>	<p style="text-align: center;"><b>Net debt</b></p> <p style="text-align: center;">Expected to be 34.2% of GDP at 30 June 2022 and peak at 40.9% of GDP in 2024–25</p> <p style="text-align: center;">Net debt is then projected to fall over the medium term to 37.0% of GDP at 30 June 2032</p>	<p style="text-align: center;"><b>Economic growth</b></p> <p style="text-align: center;">Real GDP is forecast to grow by 1.25% in 2020– 21, by 4.25% in 2021–22 and 2.5% in 2022–23</p>
<p style="text-align: center;"><b>Unemployment</b></p> <p style="text-align: center;">The unemployment rate is forecast to fall below 5% by late 2022 and to reach 4.75% in the June quarter of 2023</p>	<p style="text-align: center;"><b>Total tax receipts</b></p> <p style="text-align: center;">\$459.5 billion (22.3% of GDP) for 2020–21, \$455.6 billion (20.9% of GDP) for 2021–22, rising to \$525.4 billion in 2024–25 (21.9% of GDP)</p>	<p style="text-align: center;"><b>Total expenses</b></p> <p style="text-align: center;">\$659.4 billion in 2020–21 (32% of GDP), \$589.3 billion in 2021–22 (27.6% of GDP), rising to \$633.7 billion (26.4% of GDP) by 2024–25</p>

## Spending measures

Some of the key spending measures are:

### Childcare

- An additional \$1.7 billion over 5 years, by increasing the maximum child care subsidies for second and subsequent children aged 5 and under from 85% to 95% (from 11 July 2022) and removing the \$10,560 cap for families with combined incomes above \$189,390 (from 1 July 2022).
- The Government estimates that a family with 2 children earning \$110,000 a year will be \$95 per week better off for 4 days of care and a family with 3 children on \$80,000 will be \$108 per week better off for 4 days of care.

### Aged care

An additional \$17.7 billion over 5 years in response to the Royal Commission into Aged Care Quality and Safety, including:

- \$7.8 billion to implement a new funding model and increase the Government's Basic Daily Fee supplement by \$10 per resident per day;
- \$6.5 billion for the release of 80,000 additional Home Care Packages over the next 2 years, \$798.3 million to support informal carers of older Australians (e.g., increased access to respite services and more targeted assistance for carers of people with dementia);

- \$630.2 million to improve access to high-quality aged care services for those in regional, rural and remote areas, Aboriginal and Torres Strait Islander people, and special needs groups;
- \$942 million to support older Australians to access safe and quality care and \$652 million to skill the aged care workforce for the future.

### National Disability Insurance Scheme (NDIS)

- An additional \$13.2 billion over 4 years for the NDIS.

### Home ownership

- An additional 10,000 places in 2021–22 under the New Home Guarantee (allowing first home buyers to build a new home or purchase a newly built home with a deposit of as little as 5%);
- 10,000 single parents with dependants will be able to purchase a home with a deposit of as little as 2% (the Family Home Guarantee scheme);
- Increasing the maximum amount of voluntary contributions that can be released under the First Home Super Saver Scheme to \$50,000 (see below);
- Extending the deadline for construction to be started under the HomeBuilder program from 6 months to 18 months for existing applicants.

### Women's Economic Security

- \$120.7 million on programs designed to improve women's workforce participation and economic security (in addition to the \$1.7 billion child care package).

### Women's health

- \$148 million over 5 years for health care services for women and girls

### Mental health

- \$2 billion over 4 years (from 2021–22) for the National Mental Health and Suicide Prevention Plan

### Health (general)

- A further \$1.9 billion in Australia's COVID-19 Vaccination Strategy; \$879 million over 2 years to continue the health response to the COVID-19 pandemic, to support access to health care services and reduce the risk of community transmission of COVID-19;
- \$487 million over 2 years to expand quarantine services in the Northern Territory; \$115.2 million over 4 years (from 2021-22) to expand and improve dental health services; \$80.9 million over 5 years for initiatives to support the delivery of primary care and the health workforce in rural and remote Australia.

### Domestic violence:

- \$998.1 million over 4 years for initiatives to reduce, and support the victims of, Family, Domestic and Sexual Violence (FDSV) against women and children; \$123.8 million over 4 years to support the reform of the family law system and improve access and safety for children and families.

### Workplace

- \$9.3 million over 4 years to support the implementation of the Government's response to the *Respect@Work: Sexual Harassment National Inquiry Report*

### Training and skills

- Scrapping the JobMaker hiring credit, but providing an extra 163,000 places on subsidised training courses by extending the JobTrainer scheme (subject to matched funding by State and Territory governments); an additional \$2.7 billion on extending and expanding the Boosting Apprenticeship Commencements wage subsidy; 2,700 places in Indigenous girls' academies; and 5,000 gateway and in-training support services for women starting in non-traditional trades

### Jobs and wages

- Wage subsidies available through Jobactive, Transition to Work (the Government's specialist youth employment service) and Parents Next will be increased to \$10,000; the Local Jobs Program will be expanded and extended to 51 employment regions; Transition to Work will receive an additional \$481.2 million over the forward estimates; a more efficient employment services program (the New Employment Services Model) will replace Jobactive from 1 July 2022 at a cost of \$860.4 million over 4 years

### Tourism

- An additional \$1.2 billion targeted support package to the aviation and tourism sectors

### Education

- \$2 billion in ongoing funding for preschools through a 4-year Strategic Reform Agreement (funding will be contingent on the states and territories agreeing to a robust reform timeline focused on increasing participation and school readiness); \$53.6 million to support Australian education providers most reliant on international students

### Infrastructure (general)

- An additional \$1 billion to extend the Local Roads and Community Infrastructure Program; extending the Road Safety Program to 2022–23, with additional funding of \$1 billion; an additional \$250 million for the Building Better Regions Fund; \$189.6 million over 5 years to create jobs and support sustainable economic growth in Northern Australia; \$84.8 million to improve internet and mobile access in regional Australia; \$1.3 billion in off-farm irrigation infrastructure

### Infrastructure (specific projects):

- \$2 billion for the Melbourne Intermodal Terminal; \$2.6 billion for the North-South Corridor-Darlington to Anzac Highway in South Australia; \$2 billion for the Great Western Highway Upgrade (Katoomba to Lithgow) in NSW; \$400 million in additional funding for the Bruce Highway in Queensland; \$380 million for the Pakenham Roads Upgrade in Victoria; \$237.5 million for the METRONET to support grade separations and the elevation of stations in Western Australia; \$150 million for the Northern Territory National Highway Network; \$132.5 million for the Canberra Light Rail - Stage 2A; \$113.4 million for the Midland Highway Upgrades in Tasmania

### Vaccines

- Funding will be provided for the development of an onshore mRNA vaccine manufacturing capability in Australia.

### Agriculture

- \$850.4 million over 5 years for a package of measures to back-in the farm sector's ambition of a \$100 billion industry by 2030 and support Australia's soils and biodiversity stewardship; \$172.5 million over 4 years to support the long-term drought resilience and preparedness of primary producers, rural and regional communities; \$14.7 million to waive farm business income reconciliation debts incurred by Farm Household Allowance recipients up to the end of 2019–20.

### Deregulation

- \$134.6 million over 4 years to progress the Commonwealth's deregulation agenda.

### Natural disasters

- \$1.2 billion over 5 years to improve Australia's capability to better prepare for, respond to, and recover from natural disasters.

### Defence

- An additional \$747 million for defence training facilities in the Northern Territory.

### Veterans

- \$460.4 million to ensure the Department of Veterans' Affairs has adequate capacity to meet veteran support needs and enhance its capacity to address veteran suicide, including through faster processing of compensation claims; \$145.3 million over 2 years for the Royal Commission into Defence and Veteran Suicides.

### Not-for-profits

- \$1.9 million in 2022–23 for the ATO to build an online system to enhance the transparency of income tax exemptions claimed by not-for-profit entities.

## Budget measures for individuals

### Tax and superannuation highlights

#### Personal tax & transfer

- Extending for 12 months the low and middle income tax offset
- Removing the \$250 threshold for self-education expenses

#### Tax issues for SMEs

- Extending for 12 months temporary full expensing and the company loss carry back
- Removing the cessation of employment as a taxing point for the tax-deferred employee share schemes
- Tax relief for small brewers and distillers
- Exempting certain storm and flood grants

#### Superannuation

- Increasing the maximum amount that can be released under the First Home Super Saver Scheme
- Removing the super guarantee \$450 per month threshold
- Reducing the eligibility age for downsizer contributions to 60
- Scrapping the work test for those aged 67 to 75 making voluntary super contributions

#### International tax

- A simpler test of residency for individuals

#### Tax administration

- Giving the AAT the power to pause or modify ATO debt recovery action in relation to disputed debts of small businesses

### Low and middle income offset retained (again)

As widely predicted, the low- and middle-income tax offset (LMITO) will be retained for 2021-22, thus avoiding an effective tax increase for many taxpayers. This is how the LMITO (also called the Lamington) is calculated. The benefit will depend on a taxpayer's taxable income.

Taxable income	Amount of LMITO
\$0–\$37,000	\$255
\$37,001 - \$48,000	\$255, plus 7.5% of the excess
\$48,001 - \$90,000	\$1,080
\$90,001 - 126,000	\$1,080, less 3% of the excess
\$126,001 +	Nil

The low income offset (LITO) has not been touched. The maximum amount of the LITO is \$700, payable for taxable incomes up to \$37,500. No LITO is payable once taxable income reaches \$66,667.

Taxable income	Amount of LITO
\$0–\$37,500	\$700
\$37,501–\$45,000	\$700, less 5% of the excess
\$45,001–\$66,667	\$325, less 1.5% of the excess

## Medicare levy thresholds

The Medicare levy low-income threshold for singles for 2020–21 is \$23,226 (compared to \$22,801 for 2019–20). The family income threshold is \$39,167 (compared to \$38,474 for 2019-20), increasing by \$3,597 for each dependent child or student (compared to \$3,533 for 2019-20).

For single seniors and pensioners eligible for the senior Australians and pensioners tax offset (SAPTO), the Medicare levy low-income threshold for 2020–21 is \$36,705 (compared to \$36,056 for 2019–20). The family threshold for seniors and pensioners eligible for SAPTO is \$51,094 (compared to \$50,191 for 2019-20). The threshold increases by \$3,597 for each dependent child or student.

## No changes to tax rates

There were no changes to the income tax rates. As a reminder, the rates in the table below are legislated to apply for the 2020–21, 2021–22, 2022–23 and 2023–24 income years.

### *Income tax rates 2020-21 to 2023-24 — residents*

<b>Taxable income</b>	<b>Tax rate</b>
Up to \$18,200	Nil
\$18,201–\$45,000	19%
\$45,001–\$120,000	32.5%
\$120,001–\$180,000	37%
\$180,001 and over	45%

The rates legislated to apply from 2024–25 are also unchanged. From 2024–25, a 30% rate will apply to the \$45,001–\$200,000 bracket, doing away with the 32.5% and 37% rates.

## Simplified residency test

The individual tax residency rules will be replaced with a new, modernised framework. The primary test will be straightforward – a person who is physically present in Australia for 183 days or more in any income year will be an Australian tax resident. Individuals who do not meet the primary test will be subject to secondary tests that depend on a combination of physical presence and measurable, objective criteria.

The new framework is based on recommendations made by the Board of Taxation in its 2019 report on the residency rules. It will apply from the first income year after the enabling legislation receives assent.

Working holiday makers who stay in Australia for more than 6 months will become residents under the simplified test. Will the so-called “backpacker tax” be scrapped as a consequence? The Budget papers are silent.

## Self-education expenses

The first \$250 of a prescribed course of education expense is currently not deductible. The Government will remove that limitation, with effect from the first income year after the enabling legislation receives assent.

## Pension Loans Scheme

The flexibility of the Pension Loans Scheme will be improved by providing access to advance payments through allowing participants to access up to 26 fortnights' worth of top-up payments as a lump sum and introducing a No Negative Equity Guarantee.

## New deductible donations

The Government announced 3 new organisations (DGRs) eligible to receive tax deductible donations:

- Australian Associated Press Ltd – from 1 July 2021 to 30 June 2026;
- Virtual War Memorial Limited – from 1 July 2021 to 30 June 2026;
- Scripture Union Queensland – from 1 July 2021 to 30 June 2023.

In addition, the DGR status of Cambridge Australia Scholarships Limited and Foundation 1901 Limited has been extended for 5 years (to 30 June 2026 and 31 August 2026 respectively).

## ADF personnel

A full income tax exemption will be available for the pay and allowances of Australian Defence Force (ADF) personnel deployed to Operation Paladin from 1 July 2020. Under Operation Paladin, ADF personnel are deployed in Israel, Jordan, Syria, Lebanon and Egypt.

## Members of NZ sporting teams

The Government will ensure that New Zealand maintains its primary taxing right over members of its sporting teams and support staff in respect of Australian income tax and FBT liabilities that arise from exceeding the 183-day test in the Australia-NZ double tax agreement, as a result of being located in Australia for league competitions because of COVID-19.

The measure will apply to the 2020–21 and 2021–22 income and FBT years.

## Superannuation measures

### First Home Super Saver Scheme

As noted above, the maximum amount of voluntary contributions that can be released under the First Home Super Saver Scheme (FHSSS) will be increased from \$30,000 to \$50,000 (anticipated to start in 2022–23).

Other changes (to apply retrospectively from 1 July 2018) will assist FHSSS applicants who make errors on their FHSSS release applications, for example, by allowing individuals to withdraw or amend their applications prior to receiving a FHSSS amount.

In addition, the ATO will be allowed to return to a super fund any released FHSSS money that has not been paid to the individual. The money will be treated as the fund's non-assessable non-exempt income and will not count towards the individual's contribution caps.

### SMSFs – residency requirements

The Government will relax residency requirements for self-managed super funds (SMSFs) and small APRA-regulated funds, by extending the central control and management test safe harbour from 2 to 5 years for SMSFs and removing the active member test for both fund types. The measure is anticipated to apply from 1 July 2022.

### Legacy retirement products

There will be a 2-year period for individuals to convert a specified range of legacy retirement products, together with any associated reserves, to newer, more flexible products (currently, these products can only be converted into another like product). Products covered will include market-linked, life-expectancy and lifetime products, but not flexi-pension products or a lifetime product in a large APRA-regulated or public sector defined benefit scheme.

Social security and taxation treatment will not be grandfathered for any new products commenced with commuted funds and the commuted reserves will be taxed as an assessable contribution.

This measure will apply from the first financial year after the enabling legislation receives assent.

### Other superannuation measures

Other superannuation measures announced as part of the Budget include:

- reducing the eligibility age for the downsizer scheme from 65 to 60 (anticipated to apply from 1 July 2022). This means that Australians aged 60 or over will be able to make an additional non-concessional super contribution of up to \$300,000 from the proceeds of the sale of their home;

- scrapping the work test for those aged 67 to 74 (anticipated to apply from 1 July 2022). At present, individuals in that age bracket are required to be employed for at least 40 hours in a maximum period of 30 consecutive days in the financial year before they can make super contributions (concessional or non-concessional); and
- scrapping the requirement for workers to earn at least \$450 a month before their employers are obliged to pay super (anticipated to apply from 1 July 2022).

The Government will *not* proceed with a measure to extend early release of super to victims of family and domestic violence.

## No changes to superannuation guarantee

There had been speculation that the Government might defer the legislated increases in the super guarantee (SG) rate, but that did not happen in the Budget. Accordingly, the SG rate is still due to increase from 9.5% to 10% from 1 July 2021, and by 0.5% per year from 1 July 2022 until it reaches 12% from 1 July 2025.

Note that the SG opt-out income threshold will increase to \$275,000 from 1 July 2021 (it is currently \$263,157).

## Key tax dates

Date	Obligation
21 May 2021	April monthly BAS due
28 May 2021	March quarter SG due
21 June 2021	May monthly BAS due
30 June 2021	Super guarantee contributions must be paid by this date to qualify for a tax deduction in 2020-21
14 July 2021	Issue PAYG payment summaries if not reporting through STP
21 July 2021	June monthly BAS due
28 July 2021	Lodge and pay June quarterly BAS Pay June quarterly PAYG instalment Employee super guarantee contributions due June quarter SG due
31 July 2021*	Finalisation declaration due if reporting through STP
1 Aug 2021*	Fuel tax credit rates change
14 Aug 2021*	July monthly BAS due  PAYG withholding annual report due if not reporting through STP
28 Aug 2021*	June quarter SG charge statement due Taxable payments report due
7 Sep 2021	Deadline for application for super guarantee amnesty

\*Next business day

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