Federal Budget Briefing

May 2023

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As expected, Labor's second Budget was filled with measures aimed at easing the cost of living over the coming years, addressing the challenges of a slowing economy, and bolstering the healthcare system.

For super, announcements were focused on aligning employer Superannuation Guarantee payments with pay cycles, and the introduction of the previously announced tax on earnings attributable to balances in excess of $3 million.

There were no announcements extending the halving of pension minimums for another year or to freeze the Transfer Balance Cap at its current level. There was also no announcement to change legislated 'stage 3' tax cuts, although a number of tax strategies were proposed to support small businesses and increase the number of dwellings available on the rental market.

Cost of living measures

Energy price relief plan

From July 2023

The government has announced it will provide funding, and partner with state and territory governments, to reduce the impact of rising energy prices on Australian households and small businesses by providing targeted energy bill relief.

The government says this will deliver up to <u>$500 in electricity bill</u> **relief** for eligible households and up to <u>$650 for eligible small businesses.</u> These include:

- Pensioners
- Commonwealth Seniors Health Card holders
- Family Tax Benefit A and B recipients
- Small business customers of electricity retailers.

Also announced in the Budget, a range of other measures the government says are designed to ease the cost of living pressure on Australians. These include increasing the rate of working age payments and expanding access to Parenting Payment Single – see social security section for more information.

Cheaper medicines to ease cost of living pressures

From 1 September 2023

The government has proposed reducing the cost of selected pharmaceuticals by implementing <u>a '60 day' prescribing policy which allows two months' worth of medicine to be obtained for the cost of a single script.</u>

Doctors will have the option of prescribing a two-month supply of more than 320 medicines on the Pharmaceutical Benefits Scheme (PBS) to Australians with stable, ongoing conditions. The current dispensing limit is for a one-month supply only.

From 1 September 2023, general patients will be able save up to $180 a year if their medicine is able to be prescribed for 60 days and concession card holders will save up to $43.80 a year per medicine.

Reducing out-of-pocket health costs (tripling bulk billing incentives)

From 2022-23

The government is investing $3.5 billion over 5 years to make it easier and cheaper to see a doctor.

The funding will triple the bulk billing incentive for the most common consultations for pensioners and other Commonwealth concession card holders and patients aged under 16 years of age.

The higher bulk billing incentive will support GPs to bulk bill around 11.6 million eligible Australians. This will support eligible patients to receive the care they need, without any out-of-pocket costs. The bulk billing incentive will continue to be higher for patients in regional and rural areas to support the ongoing viability of general practices in these communities.

Superannuation

No announcement to extend halving of the pension minimums for another year

From 1 July 2023

The government did not announce any extension of the halving of the account-based pension and term allocated pension minimum drawdown requirements, which have been in effect since 2019-20. As a result, the minimum drawdown requirements are likely to revert to 100% of the standard minimum from 1 July for the following pensions (and annuities):

- Account based pensions
- Transition to retirement pensions
- Term allocated pensions.

Although the government could still announce an extension of the current halving of the minimum drawdown requirements for these pensions prior to the end of the year, given this wasn't announced in the Budget it is considered unlikely.

IWP comment: Some clients' pension payments may double from 1 July

Clients who have taken advantage of the current rules and reduced their pension payments below the standard minimum may be forced to increase their pension payments by as much as double from 1 July – if the current rules are not extended. In this case, advisers may wish to contact these clients to inform them of the potential increase and to discuss their options in relation to any extra income.

While some clients may choose to spend the additional income due to the rising cost of living, others who don't need the income may want to invest it. Alternatively, if they are between the ages of 67 and 74, they could take advantage of the work test removal and re-contribute these amounts back into super as part of a re-contribution strategy.

No announcement to freeze the transfer balance cap at its current level

From 1 July 2023

In February 2023, it was confirmed that the Transfer Balance Cap (TBC) would increase by $200,000 to $1.9m on 1 July this year due to indexation. However, since February there has been some industry speculation that the government may freeze the TBC at its current level of $1.7m in the Budget – which did not happen.

While it's still possible that the government could announce this before the end of the year, the fact it wasn't announced in the Budget suggests the TBC will increase to $1.9m on 1 July 2023 as expected.

IWP comment: Delay commencing an Income stream until 1st of July

Given this, clients with large super balances who plan to retire before 1 July 2023 and start their first retirement phase income stream, such as an account-based pension, may wish to consider delaying until 1 July 2023 to get the benefit of the full $200,000 indexation.

Requiring employers to pay their employees' SG at the same time as their salary and wages

From 1 July 2026

The government has announced that employers will be required to pay their employees' SG entitlements at the same time as their salary and wages. Currently, employers are required to pay their employees' superannuation guarantee contributions on a quarterly basis.

The government says requiring employers to pay employees' SG at the same time as their salary and wages will make it easier for employees to keep track of their payments and increase their overall retirement benefit.

For example, the government provides an example showing that a 25-year-old median income earner currently receiving their wages fortnightly, but their super quarterly, could be around $6,000 or 1.5 per cent better off at retirement.

The government also announced it will provide additional funding to the ATO in 2023–24 to improve its ability to identify and act on cases of SG underpayment by employers.

IWP comment

At this stage the government's announcement does not provide any carve outs for small businesses. As a result, this proposed change will impact all employers who do not already pay super at the same time as salary and wages. However, these employers will have until 1 July 2026 to prepare for the change, if legislated.

Likely support required using software such as Xero that will be able to support these payments quite easily

$3m total super balance tax

From 2025-26

The government has announced it will reduce the tax concessions available to individuals with a total super balance exceeding $3 million, from 1 July 2025.

Individuals with a total super balance of less than $3 million will not be affected.

This reform is intended to ensure generous super concessions are better targeted and sustainable. It will bring the headline tax rate to 30 per cent, up from 15 per cent, for earnings corresponding to the proportion of an individual's total super balance that is greater than $3 million. This rate remains lower than the top marginal tax rate of 45 per cent. Earnings relating to assets below the $3 million threshold will continue to be taxed at 15 per cent or zero per cent if held in a retirement pension account.

Interests in defined benefit schemes will be appropriately valued and will have earnings taxed under this measure in a similar way to other interests. This will ensure commensurate treatment.

IWP comment: Devil may be in the detail

The government originally announced this measure in February 2023 and has since undertaken industry consultation. However, the government has not provided any further guidance on how the measure will technically operate in the Budget, other than to reiterate that it will be based on a member's total super balance.

It will therefore be necessary to wait for the legislation to be introduced before a range of issues will be clarified, such as what amounts will be treated as 'contributions' and 'withdrawals' for the purposes of the earnings calculation.

The industry has called for the $3m limit to be indexed to avoid more people becoming subject to this proposed tax over time as the $3m threshold reduces in real terms. However, the government has not provided any comment in this Budget whether indexation will be considered when legislation is introduced.

Personal Taxation

No announcement to change legislated 'stage 3' tax cuts

From 1 July 2024

The former government legislated three stages of personal income tax cuts commencing from the 2018-19 financial year, with stage 3 of these tax cuts due to take effect on 1 July 2024. While the current government had previously ruled out any changes in this area, there has been ongoing speculation about whether it would be delayed, modified or cancelled given it comes at significant cost to the Budget and particularly benefits higher income earners.

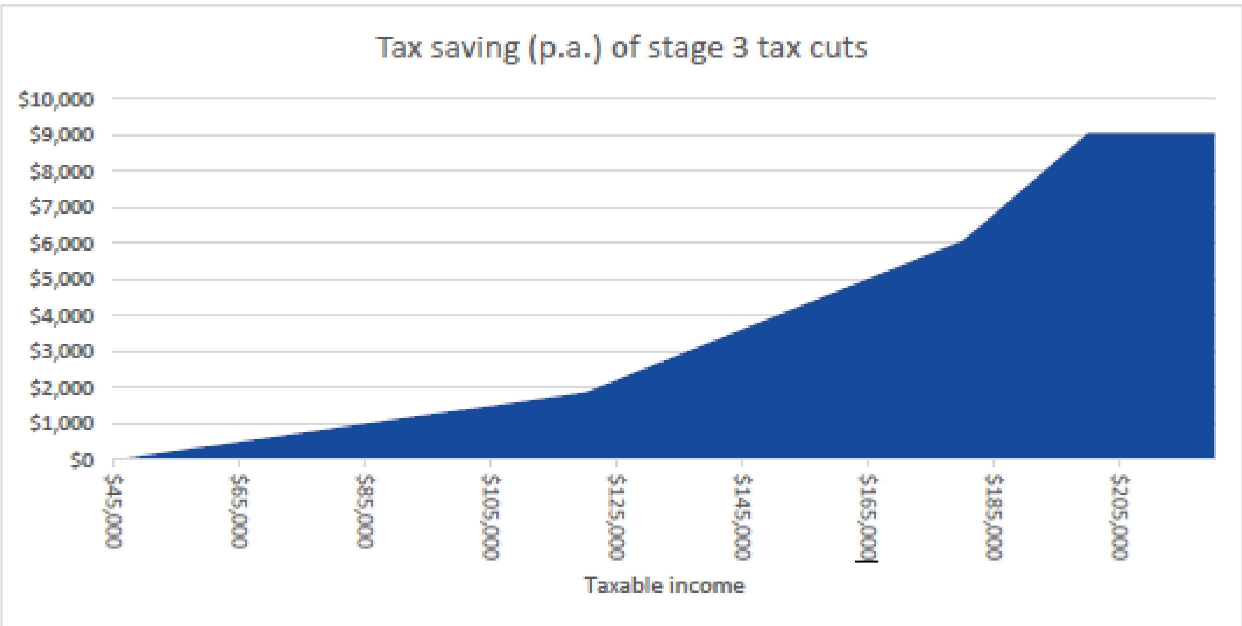
With nothing new announced in last night's Budget regarding the stage 3 tax cuts, they remain legislated to take effect on 1 July 2024. However, it's worth noting that there is more than a year, and a further Federal Budget, between now and commencement.

As a reminder, the stage 3 tax cuts will change the income tax rates and thresholds (for resident taxpayers) as follows:

Current (2022–23) year and 2023-24 year		**From 2024–25 year**	
Taxable income	Marginal tax rate*	Taxable income	Marginal tax rate*
$18,200 to $45,000	19%	$18,200 to $45,000	19%
$45,001 to $120,000	32.5%	**$45,001 to $200,000**	**30%**
$120,001 to $180,000	37%		
$180,001 and over	45%	**$200,001 and over**	**45%**

*Excluding Medicare levy

The following graph shows the annual tax saving that the stage 3 tax cuts will provide, based on a client's taxable



Amendment to the Electric Car Discount

From 1 April 2025

On 12 December 2022, the Treasury Laws Amendment (Electric Car Discount) Bill 2022 was enacted to provide an FBT exemption in respect of eligible electric vehicles.

As originally legislated, the eligibility of plug-in hybrid electric cars from the fringe benefits tax exemption will cease for these vehicles where they are provided on or after 1 April 2025.

Arrangements involving plug-in hybrid electric cars entered into between 1 July 2022 and 31 March 2025 remain eligible for the Electric Car Discount.

The FBT exemption will continue to apply to battery electric vehicles and hydrogen fuel cell electric vehicles.

Business taxation

Small business support – $20,000 instant asset write-off

From 1 July 2023

The government has announced it will temporarily increase the instant asset write-off threshold to $20,000, from 1 July 2023 until 30 June 2024.

Small businesses, with aggregated annual turnover of less than $10m, will be able to immediately deduct the full cost of eligible assets costing less than $20,000 that are first used or installed ready for use between 1 July 2023 and 30 June 2024. The $20,000 threshold will apply on a per asset basis, so small businesses can instantly write off multiple assets.

Assets valued at $20,000 or more (which cannot be immediately deducted) can continue to be placed into the small business simplified depreciation pool and depreciated at 15 per cent in the first income year and 30 per cent each income year thereafter.

The provisions that prevent small businesses from re-entering the simplified depreciation regime for 5 years if they opt-out will continue to be suspended until 30 June 2024.

Small business energy incentive

From 1 July 2023

The government has announced small and medium businesses, with aggregated annual turnover of less than $50m, will be permitted to deduct an additional 20 per cent of the cost of eligible depreciating assets that support electrification and more efficient use of energy. Up to $100,000 of total expenditure will be eligible for the Small Business Energy Incentive, with the maximum bonus deduction being $20,000.

A range of depreciating assets, as well as upgrades to existing assets, will be eligible for the Small Business Energy Incentive. These will include assets that upgrade to more efficient electrical goods, such as:

- energy-efficient fridges
- heat pumps and electric heating or cooling systems, and
- demand management assets such as batteries or thermal energy storage.

Eligible assets will need to be first used or installed ready for use between 1 July 2023 and 30 June 2024. Eligible upgrades will also need to be made in this period.

Certain exclusions will apply such as electric vehicles, renewable electricity generation assets, capital works, and assets that are not connected to the electricity grid and use fossil fuels.

Social security

Increase to Working Age Payments

From 20 September 2023

The government has announced it will provide additional funding to increase support for people receiving working age payments including the JobSeeker Payment.

Specifically, the government has announced it will:

- increase the base rate of working age and student payments by $40 per fortnight. This increase applies to the JobSeeker Payment, Youth Allowance, Parenting Payment (Partnered), Austudy, ABSTUDY, Disability Support Pension (Youth), and Special Benefit.
- extend eligibility for the existing higher single JobSeeker Payment rate for recipients aged 60 years and over to recipients aged 55 years and over who are on the payment for 9 or more continuous months.

The government says that around 52,000 eligible recipients will receive an increase in their base rate of payment of $92.10 per fortnight.

The increased support for recipients aged 55 years and over, the majority of whom are women, acknowledges the additional challenges older Australians face in re-entering the workforce, such as age discrimination or poor health.

Increased access to Parenting Payment (Single)

From September 2023

The government announced it will increase the eligibility age of the youngest child for single principal carers receiving Parenting Payment, from 8 to 14 years of age.

This change will allow single principal carers to remain on Parenting Payment for up to 6 additional years until their youngest child reaches age 14.

Under current rules, once the youngest child reaches age 8 the single principal carer is moved to another income support payment such as JobSeeker Payment which has a lower maximum rate of payment. The current base rate of JobSeeker Payment is $745.20 per fortnight whereas the base rate of Parenting Payment (Single) is $922.10 per fortnight.

In addition, the Government will abolish ParentsNext from 1 July 2024 and develop a replacement voluntary program, to provide high-quality pre-employment support. This will end the risk of losing payments and take away unnecessary stress and anxiety from participants, who are mostly women and single parents.

Temporary changes to the work bonus to incentivise pensioners into the workforce extended

The government will extend the measure to provide age pensioners and veteran pensioners, a once-off credit of $4,000 to their Work Bonus income bank and temporarily increase the maximum income bank until 31 December 2023.

Under this measure, pensioners can earn up to $11,800 before their pension is reduced, supporting pensioners who want to work, or work more hours, to do so without losing their pension.

Cheaper childcare commences in July

Legislated measure to take effect from July 2023

The government has re-announced their commitment to a previously legislated measure[3] aimed at providing more affordable childcare. The measure, which was legislated in November 2022, will commence from July 2023.

The government says around 1.2 million families will begin to benefit from cheaper childcare. Child Care Subsidy rates will increase up to 90 per cent for eligible families and up to 95 per cent for any additional children in care aged 5 years and under.

Increased support for Commonwealth Rent Assistance

From 20 September 2023

The government will provide additional funding to increase the maximum rates of the Commonwealth Rent Assistance (CRA) allowances by 15 per cent to help address rental affordability challenges for CRA recipients. This represents the largest increase in Commonwealth Rent Assistance in over 30 years applying to both singles and couples. For single people, the maximum rate of rent assistance increases from $157.20pf to $180.80pf.

IWP comment

This is a positive change for those who currently live in an over 50's lifestyle village and are in receipt of rent assistance. Subject to the detail behind this measure, we should see an increase in rental assistance payments in to those recipients.

Aged care

Aged care regulatory reform

The government has committed to provide over $300m in additional funding over 5 years from 2022–23 to implement the recommendations from the Royal Commission into Aged Care Quality and Safety and other initiatives to strengthen the regulation of the aged care sector and improve the health and safety of older Australians receiving aged care.

Initiatives to be funded include:

- improving the accountability and transparency of approved aged care providers through enhancements to the Star Rating system
- supporting the development and implementation of a new, stronger Aged Care Regulatory Framework to support the new Age Care Act which is due to commence from 1 July 2024
- establishing a national worker screening and registration scheme from 1 July 2024
- ensuring the Aged Care Quality and Safety Commission is appropriately resourced to deliver its audit and compliance program in 2023–24
- improving the food and nutrition in aged care through the development, monitoring and enforcement of food and nutritional standards.

The government says this measure builds on the 2022–23 October Budget measure titled Fixing the Aged Care Crisis which included:

- a plan to ensure aged care residents have access to a registered nurse in every aged care facility on site, 24 hours a day, seven days a week

- enabling every aged care resident to receive an average of 215 minutes of care per day
- ensuring better food for aged care residents.
- providing tailored support for older people with a disability.

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[3] **Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022**

Improving aged care support

From 1 July 2022

The government will provide additional funding over 5 years from 2022–23 to continue to improve the delivery of aged care services and respond to the Final Report of the Royal Commission into Aged Care Quality and Safety. Funding includes:

- extension of Disability Support for Older Australians Program
- introduction of a new General Practice in Aged Care incentive payment to improve general practitioner attendance and continuity of care in residential aged care homes, and to reduce avoidable hospitalisations
- a new place assignment system, allowing older Australians to select their residential aged care provider.

This measure extends the 2022–23 October Budget measure titled Implementing Aged Care Reform.

Funding pay increases for aged care workers

From 1 July 2023

The government will increase the wages of aged care workers by 15% from 1 July 2023.

This measure funds the outcome of the Fair Work Commission's decision on the Aged Care Work Value Case.

The increase will benefit 250,000 people including registered nurses, enrolled nurses, assistants in nursing, personal care workers, head chefs and cooks, recreational activities officers (lifestyle workers), and home care workers.

Other

Expand the eligibility of the Home Guarantee Scheme

The government has announced it will expand the eligibility of the Home Guarantee Scheme to:

- allow two eligible people to be joint applicants for a guarantee beyond spouses and de facto partners
- allow non-first home buyers who have not owned a property in Australia for at least 10 years to access the First Home Guarantee and Regional Home Guarantee
- allow a single legal guardian of children to access the Family Home Guarantee
- allow Australian permanent residents to access the Scheme.

The Home Guarantee Scheme includes:

- The First Home Guarantee – supports eligible first home buyers to buy their first home sooner, with a deposit as little as 5%.
- The Regional First Home Buyer Guarantee – to support eligible regional first home buyers to buy a home in a regional area.
- The Family Home Guarantee – to support eligible single parents with at least one dependent child to buy a home, with a deposit as little as 2%.

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