

Market Wrap

2021 Federal Budget – Special Edition

On Tuesday 11 May, Treasurer Josh Frydenberg handed down the 2021 Federal Budget, which was eagerly awaited after the unprecedented stimulus that occurred in the past year through COVID-19 response measures.

The Treasurer detailed the current state of the economy and a roadmap for international travel to resume by mid-2022. An additional \$1.9 billion was also announced to support the vaccine rollout, with a targeted completion date set for late 2021.

The numbers

Some of the key numbers announced include:

- A deficit of \$161 billion for 2020/21, which is \$53 billion lower than what was initially projected in last year's budget.
- Net debt of \$617.5 billion for 2020/22, which is expected to peak at \$980.6 billion in 2024/25
- An extra \$15 billion for major infrastructure projects
- Real GDP of 1.25% for 2020/21, expected to rise to 4.25% in 2021/22.
- The unemployment rate is expected to fall to 5% in mid-2022.

Retaining the low and middle-income tax offset (LMITO) 2021-22

The low and middle-income tax offset (LMITO) will be retained for the 2021/22 income year. Those with a taxable income of \$37,000 or less will benefit by up to \$255 in reduced tax. If the taxable income is between \$37,000 and \$48,000, the value of the offset increases at a rate of 7.5 cents per dollar to the maximum offset of \$1,080. Taxpayers with taxable incomes between \$48,000 and \$90,000 are eligible for the maximum offset of \$1,080. For taxable incomes of \$90,000 to \$126,000, the offset phases out at a rate of 3 cents per dollar.

Reforms to the superannuation 'work test'

From 1 July 2022, individuals aged 67 to 74 will no longer be required to meet the work test when making or receiving non-concessional or salary sacrificed superannuation contributions. Individuals aged 67 to 74 years will still have to meet the work test to make personal deductible contributions.

Removing the \$450 per month threshold for Superannuation Guarantee eligibility

The current \$450 per month minimum income threshold, under which employees do not have to be paid the Superannuation Guarantee by their employer will be removed and is expected to take effect in 2022.

Extending access to the downsizer contribution

From 1 July 2022, the minimum age for the downsizer contribution will be lowered from 65 to 60. The downsizer contribution allows people to make a one-off, post-tax contribution to their superannuation of up to \$300,000 per person from the proceeds of selling their home (if held for at least 10 years).

Downsizer contributions do not count towards the concessional and non-concessional contributions caps. People with balances over the transfer balance cap (which is \$1.7 million from 1 July 2021) are also able to make a downsizer contribution, however, the downsizer amount will count towards that cap when savings are converted to the retirement phase.

Improving the Pension Loans Scheme

For the first time, older Australians will be able to access a limited lump sum from the Pension Loans Scheme (PLS). The Pension Loans Scheme allows individuals to supplement their income in retirement by borrowing against the equity in their property, assisting older Australians to maintain living standards in retirement. This will take effect from 1 July 2022.

The increased flexibility will allow a self-funded retiree to get a lump sum payment worth up to 50 per cent of a full rate Age Pension, representing around \$12,385 per year for singles and around \$18,670 for couples under the PLS each year.

This is on top of the other amounts they would receive under the PLS up to the maximum annual amount and means they will be able to bring forward one third of their maximum PLS payments if they choose to do so.

SMSFs – relaxing residency requirements

Residency requirements for self-managed superannuation funds (SMSFs) will be relaxed by extending the central control and management test safe harbour from two to five years and removing the active member test. The measure will take effect from the start of the first financial year after Royal Assent of the enabling legislation, which the government expects to occur prior to 1 July 2022.

Housing packages

An additional 10,000 first home buyers will be able to purchase a new home under the extension to the First Home Loan Deposit Scheme. This will allow first home buyers to secure a loan to build a new home or purchase a newly built dwelling with a deposit of as little as 5%, with the government guaranteeing up to 15% of a loan.

A new 'Family Home Guarantee' has also been introduced, with 10,000 places from 2021/22 to support single parents with dependants to enter, or re-enter, the housing market with a deposit of as little as 2%.

The government will also increase the maximum releasable amount of voluntary concessional and non-concessional contributions under the First Home Super Saver Scheme (FHSSS) from \$30,000 to \$50,000.

Aged care reforms

In response to the Royal Commission into Aged Care Quality and Safety, the government is investing \$17.7 billion into the sector over five years.

This includes funding to deliver 80,000 additional Home Care Packages, taking the total number of Packages to more than 275,000.

Boost to Infrastructure investment

The government is committing an additional \$15.2 billion to infrastructure projects over the next ten years which will support over 30,000 jobs over the lives of those projects. This includes committing \$2 billion for the new Melbourne Intermodal Terminal, \$2 billion for the Great Western Highway in New South Wales, and additional funding for Bruce Highway Upgrades in Queensland, the North-South Corridor in South Australia and further stages of METRONET rail in Western Australia. The Northern Territory and Tasmania will also receive funding for highway priorities.

Instant full value asset write-off for business

The government announced a one-year extension for this scheme, which allows businesses with turnover up to \$5 billion to deduct the full cost of eligible depreciable assets of any value in the year they are installed. The cost of improvements to existing eligible depreciable assets made during this period can also be fully deducted.

This allows companies with turnover up to \$5 billion to offset losses against previous profits on which tax has been paid, to generate a refund.

Affordable childcare

The government is investing an additional \$1.7 billion in childcare, to increase the subsidy for the second and subsequent child. The annual cap will also be removed from 1 July 2022. Around 250,000 Australian families expected to benefit from the change.

Supporting you

We can help with any additional information you might require about the 2021 Budget and what the announcements might mean for your financial situation. You can also access a number of [dedicated documents](#) which contain more information about each of the Budget measures. Please speak to us if you have any questions.

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