

# 2021-22 Federal Budget What it means for you



As the COVID economic landscape continues to take shape, Australian Federal Treasurer Josh Frydenberg has handed down the 2021-22 Federal Budget.

Among the proposed changes, he announced continuing tax relief for lower earners, help for older Australians to save for retirement and more assistance for first home buyers.

Read on for a round-up of the proposals, and a look at how they might affect your household expenses and financial future.

Remember, at the moment these are just proposals and could change as legislation passes through parliament.

## Superannuation

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### 1. Repealing the work test for super contributions

*Proposed effective date: 1 July 2022*

People aged 67 to 74 will be able to make non-concessional or salary sacrificed superannuation contributions **without meeting the work test**, subject to existing caps.

This will simplify super rules and increase flexibility for older Australians to save for their retirement.

Currently, people aged 67 to 74 years can only make voluntary contributions to their super if they've worked at least 40 hours over 30 consecutive days in the financial year, unless they meet an exemption. The work test will still need to be met for those who wish to claim a tax deduction for personal contributions to super.

### 2. Extending access to downsizer contributions

*Proposed effective date: 1 July 2022*

The Government is proposing to lower the age Australians can make tax-free contributions to their super from the proceeds of selling their homes **from 65 to 60**.

Other eligibility rules for downsizer contributions will remain unchanged.

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### 3. Giving retirees opportunity to exit legacy retirement products

*Proposed effective date: 1 July after it's passed as law*

The Government will provide a temporary, two-year opportunity for people to **transition from certain legacy retirement products to newer**, more flexible products if they choose.

Retirees will be able to transfer their capital back into a super account and then start a new retirement product, take a lump sum benefit or retain the funds in that account.

### 4. Abolishing the \$450 per month income threshold for Superannuation Guarantee (SG)

*Proposed effective date: 1 July 2022*

The minimum income threshold of \$450 per month will be removed, so all eligible **employees will receive SG contributions**. The SG rate is increasing to 10% from 1 July 2021 and then gradually to 12% by 2025.

## Taxation: personal

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### 1. Extending the Low and Middle Income Tax Offset (LMITO)

*Proposed effective date: 1 July 2021*

- The LMITO was due to end on 30 June 2021 but will now be retained **for one more year in 2021-22**. It's worth up to \$1,080 for individuals or \$2,160 for couples.
- The benefit for those earning up to \$37,000 is \$255.
- Between \$37,000 and \$48,000, the offset increases at the rate of 7.5 cents per \$1 above \$37,000 to a maximum of \$1,080.
- Those earning between \$48,000 and \$90,000 are eligible for the maximum LMITO benefit of \$1,080
- For income above \$90,000, the offset phases out at a rate of 3 cents per \$1 and is not available when taxable income exceeds \$126,000.

| Marginal tax rate (MTR) *(%) | Thresholds - income range 2021-22 (\$) | Thresholds - income range from 2022-23 to 2023-24 (\$) | Thresholds - MTR (%) and income range from 1 July 2024 (\$) |
|------------------------------|--|--|---|
| 0                            | 0 - 18,200                             | 0 - 18,200   | 0% 0 - 18,200   |
| 19                           | 18,201 – 45,000                        | 18,201 – 45,000  | 19% 18,201 – 45,000   |
| 32.5                         | 45,001 – 120,000                       | 45,001 – 120,000                                       | 30% 45,001 – 200,000  |
| 37                           | 120,001 – 180,000                      | 120,001 – 180,000                                      | -   |
| 45                           | > 180,000                              | > 180,000  | 45% > 200,000   |
| <b>LMITO</b>                 | <b>Up to 1,080</b>                     | -  | -   |
| LITO                         | Up to 700                              | Up to 700  | Up to 700   |

The Low Income Tax Offset (LITO) is also available and will be reduced at a rate of:

- 5 cents per \$1 for income between \$37,500 and \$45,000, and
- 1.5 cents per \$1 for income between \$45,000 and \$66,667.

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## 2. Increasing Medicare levy low-income thresholds

*Proposed effective date: From 2020-21 financial year*

Thresholds will increase from 1 July 2020 so low-income taxpayers will generally continue to be exempt from paying the Medicare levy. The threshold for:

- **singles** will increase from \$22,801 to **\$23,226**
- **families** will increase from \$38,474 to **\$39,167**
- **single seniors and pensioners** will increase from \$36,056 to **\$36,705**
- **families (seniors and pensioners)** will increase from \$50,191 to **\$51,094**.

For each dependent child or student, the family thresholds increase by a further \$3,597.

## Housing affordability

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### 1. Extending the First Home Super Saver Scheme (FHSSS)

*Proposed effective date: 1 July 2022*

The cap on withdrawals of voluntary contributions will increase from **\$30,000 to \$50,000**. The FHSSS is aimed at boosting the deposit savings of first home buyers by allowing them to use the tax advantaged super system.

The FHSSS allows first home buyers to withdraw voluntary contributions (both concessional and non-concessional) plus an amount of notional earnings towards their first home purchase. The total amount released from super cannot include more than \$15,000 in voluntary contributions from any one financial year, up to a total of \$50,000 across all years plus associated earnings.

### 2. Extending the First Home Loan Deposit Scheme (FHLDS)

*Proposed effective date: 1 July 2021*

**An extra 10,000 new places** in the FHLDS will be made available in 2021-22 to first home buyers who buy a newly constructed home or build a new home.

The FHLDS allows first home buyers/builders to borrow more than the standard 80% of the property's value with only a 5% deposit and without paying lender's mortgage insurance.

### 3. Helping Australians build and buy their homes

**HomeBuilder program**—the Government will give people more time to take advantage of the grants by extending the construction commencement requirement from 6 to 18 months.

**Family Home Guarantee scheme**—the Government will allow up to **10,000 eligible single parents** with dependants to enter or re-enter the housing market with a **deposit as little as 2%** from 2021-22.

## Women

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The Government has earmarked \$3.4 billion to improve women's safety, economic security, health and wellbeing. As well as childcare, super and tax changes, this includes funding to help with family domestic and sexual violence, family law, workplace sexual harassment and female leadership development.

# Families, Social Security and Aged Care

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## 1. Increasing the Child Care Subsidy (CCS)

*Proposed effective date: 1 July 2022*

The Government proposes to provide a higher level of CCS to families with more than one child under age 6 and in childcare to ease the cost of childcare and remove the disincentives for parents to return to the workforce or increase their work hours.

The level of subsidy will increase by an extra 30% **to a maximum of 95%** for second and subsequent children.

Currently a family may receive a 50% subsidy on childcare costs for each child if their family income is between \$174,390 and \$253,680. Under the proposal, the family would receive a CCS of 50% of costs for their first child and 80% for their second and subsequent children.

The annual cap of \$10,560 for families earning between \$189,390 and \$353,660 will also be removed.

## 2. Improving the Pension Loan Schemes (PLS)

*Proposed effective date: 1 July 2022*

The Government is increasing the flexibility and attractiveness of the PLS by:

- introducing a **No Negative Equity** Guarantee so borrowers will never owe more than the value of their equity in the property the loan is secured against
- providing access to **two lump sum advances** in any 12 months up to 50% of the maximum annual rate of Age Pension.

The PLS enables senior Australians to receive fortnightly loan payments to supplement their retirement income by using their homes as security, provided the combined Age Pension payment and loan amount does not exceed 150% of the maximum pension payment rate. Based on current Age Pension rates, a single person could receive lump sum payments of up to \$12,385 per year, and couples about \$18,670.

## 3. Supporting changes to aged care

*Proposed effective date: Immediate and ongoing*

The Government will deliver **\$17.7 billion** to aged care over five years with a focus on home care as well as the sustainability, quality and safety of residential care.

Two immediate impacts will be the release of **80,000 new home care packages** over two years from 2021-22 and **improved daily living conditions** in residential care by contributing \$10 per day for each resident on top of the basic daily fee.

## Further information

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For more information regarding these announcements please contact Tracy Dyer on 02 4312 8119 or [tracy@elementwealthsolutions.com.au](mailto:tracy@elementwealthsolutions.com.au)