FEDERAL BUDGET 2020
SNAPSHOT

On Tuesday 6 October, the Federal Government handed down its Budget for the 2020–21 financial year. With the economic impacts of Coronavirus pushing Australia into recession for the first time in nearly three decades, the Federal Government have announced significant stimulus measures to promote economic growth and recovery.

According to the Treasurer, this year's Budget measures aim to create job opportunities and help Australians get back on track. The Treasurer claims that these measures will get the economy growing again by 2021.

Here are some of the announced Budget changes that could affect you. However, it's important to remember that these are only proposals at this stage, and each proposal will only become law once it's passed by Parliament.

Tax changes:

- Income tax cuts scheduled for 2022 will be brought forward for most income brackets.
- The Low and Middle Tax Offset of up to $1,080 will remain in place for the 2020–21 financial year.

Superannuation changes:

- Employers will no longer create default super accounts for most new employees.
- From July 2021, the performance of MySuper products will be benchmarked annually. Funds will need to notify members if their MySuper product underperforms.
- The Federal Government's YourSuper tool will help super fund members compare the fees and returns of different funds.

Health, welfare and jobs:

- Government support recipients will receive two additional payments of $250, to be paid in December 2020 and March 2021.
- Additional funding will be provided to the National Disability Insurance Scheme (NDIS), mental health and suicide prevention programs, and the Pharmaceutical Benefits Scheme (PBS).
- New jobs will be created in key industries that will help grow the Australian economy.

Colonial First State

Federal Budget 2020:
What you need to know

Tax changes

Personal tax cuts

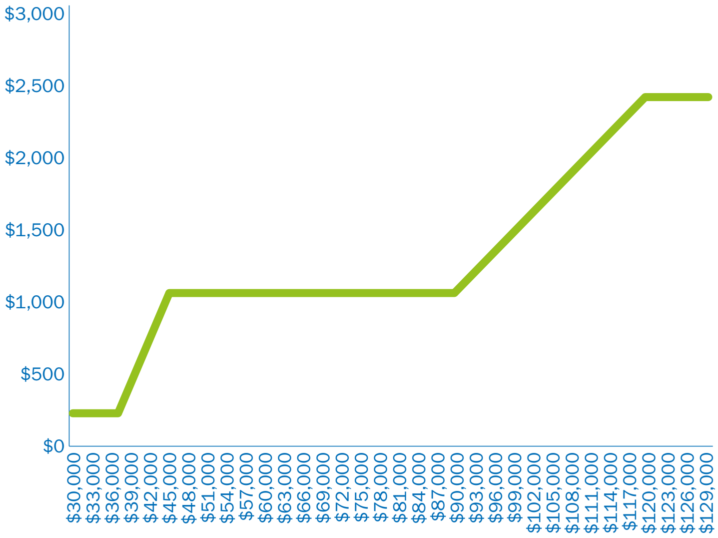
The Government has announced that it will bring forward stage two of the previously legislated tax cuts that were due to take effect from 1 July 2022 by two years. As a result, from 1 July 2020:

- the Low Income Tax Offset (LITO) will increase from $445 to $700. The increased LITO will be reduced at a rate of 5 cents per dollar between taxable incomes of $37,500 and $45,000. The LITO will then be reduced at a rate of 1.5 cents per dollar between taxable incomes of $45,000 and $66,667.
- the top threshold of the 19% tax rate will increase from $37,000 to $45,000, and
- the top threshold of the 32.5% tax rate will increase from $90,000 to $120,000.

What this could mean for you

The following chart shows the tax cuts you might receive this financial year based on your income levels and the amount of tax you're currently paying.

Tax saving this year



However, if you're earning between $48,000 and $90,000, these tax cuts will cease to apply from 1 July 2021 due to the Low and Middle Income Tax Offset (LMITO) being phased out from that date. Other individuals earning below $126,000 will also be impacted (to a lesser extent) by the removal of LMITO from 1 July 2021. We've provided more information about this in the next section.

It should be noted that the Government made no announcements about bringing forward the effective date of the stage three tax cuts that were due to take effect from 1 July 2024. Under these tax cuts, the 37% tax rate will be abolished and the 32.5% tax rate will reduce to 30% and will apply from $45,000 to $200,000.

Low and Middle Income Tax Offset

The Low and Middle Income Tax Offset (LMITO) was introduced in the 2018 Budget, to complement the existing Low Income Tax Offset (LITO).

In 2019, the base rate for the LMITO increased from $200 to $255 and the maximum payment increased from $530 to $1,080.

The Government had planned to discontinue the LMITO when the stage two cuts were to be introduced in mid-2022. However, even though the stage two cuts have been moved forward to the current financial year, the LMITO will also remain in place for the 2020–21 financial year.

What this could mean for you

If you qualify for LMITO you will receive payment after you submit your next tax return. Depending on your income, the maximum LMITO you can receive is $1,080.

However, the LMITO is scheduled to cease next year. This means you could end up paying more tax in the 2021–22 financial year than in 2020–21.

Dual income couples can both be eligible for the LMITO, up to a combined total of $2,160.

Super changes

Default super accounts

Currently, if you start a new job and you don't let your employer know where you want them to pay your super contributions, they will open a super account for you. The account will be in your employer's default super fund. This may result in you having multiple super accounts.

By 1 July 2021, your employer will be able to obtain information about your existing super account from the ATO. They will then pay your super contributions into this account, unless you instruct them to pay it to a different account.

For people who don't yet have a super account, their employer will be able to open an account for them in their default super fund.

What this could mean for you

Over 4 million Australians currently have multiple super accounts, and this means they're paying more than one set of super fees and possibly multiple insurance premiums as well. The Government estimates that this is costing Australians $450 million each year. The intention of this change is to keep people's super accounts attached to them, so they can take them from job to job.

By having only one super account, you can stop paying unnecessary fees and insurance premiums that may be eroding your super balance. Having all your super together can also help your super savings accumulate faster.

Performance testing for MySuper products

MySuper products follow a strict set of government guidelines. They tend to offer their members lower fees, simple features and limited investment options.

The Government feels there are too many underperforming super funds in the market, and this is impacting members' retirement savings. From 1 July 2021, MySuper products will be subject to an annual benchmarking test. If the fund is found to be underperforming, it will need to inform its members by 1 October 2021.

Further, if a fund is found to underperform for two consecutive years, they won't be permitted to accept new members until their performance improves.

By 1 July 2022, all super funds will need to do the annual benchmarking test – not just MySuper products.

What this could mean for you

How your super fund performs can make a big difference to the amount of money you have when you retire. This change means that your super fund will need to tell you if your fund has underperformed compared to other super funds. You can then make a decision about whether you want to stay with your fund or change to another fund.

YourSuper online comparison tool

To help members easily compare super funds, the Government will release an interactive online comparison tool called YourSuper by 1 July 2021 which will:

- rank MySuper products by fees and investment returns
- provide links to super fund websites
- show if you have more than one super account so you can consider consolidating them.

What this could mean for you

Choosing a super fund can be daunting. This comparison tool will make it easier to see what each super fund charges in fees and how they have been performing. However, it's important to remember that past performance is not always an indication of future performance. That's why it's always best to talk to your financial adviser before making a decision about your super.

Health, welfare and jobs

Additional support payments for welfare recipients

Government support recipients will receive two separate economic support payments of $250, to be paid progressively from December 2020 and March 2021.

This follows two previous payments of $750 to eligible recipients, with the new payments estimated to cost a total of $2.6 billion.

What this could mean for you

You may be eligible for the two payments of $250 if you're currently receiving:

- Age Pension (including Age Pension (Blind))
- Carer Allowance*
- Carer Payment
- Commonwealth Seniors Health Card
- Disability Support Pension (including Disability Support Pension (Blind))
- Double Orphan Pension*
- DVA Gold card
- DVA Payments
- DVA Seniors Card
- Family Tax Benefit (fortnightly recipients)*
- Family Tax Benefit (lump sum recipients)*
- Pensioner Concession Card (PCC) holders (covers non-income and asset test PCC holders and people who have an extended entitlement to a PCC even though their payment has stopped).

* You might not be eligible if you're receiving a primary income support payment. To determine if you're eligible, we recommend you speak to Centrelink or your financial adviser if you have one.

Health services

Coronavirus has taken its toll on the mental health of many Australians. Therefore, the number of psychological services funded by Medicare will be doubled from 10 to 20, effective immediately.

The NDIS will also receive additional funding of almost $4 billion, to provide essential support to Australians living with a disability.

Women facing ovarian cancer will now be able to access the drug Lynparza through the PBS. Rather than costing $140,000 per course, general patients will now pay around $41 for a script while concession card holders will be charged $6.60.

What this could mean for you

If you currently access any of these services, or think you may need to in the future, it's important to understand what you're eligible for. As the first step, we recommend you speak with your doctor.

New jobs in key industries

The Government is committing $1.5 billion over five years from 2020–21 to support the building of competitiveness, scale and resilience in the Australian manufacturing sector. It will focus on six key industries of strategic interest:

- defence
- space
- medicine and medical products
- food and beverages
- resources technology
- recycling and clean energy.

Rural communities will benefit from $2 billion in funding over 10 years to improve water infrastructure, while regional businesses will benefit from an expansion of the instant asset write-off scheme. Regions that rely on international tourism will benefit from their share of $51 million in funding over two years to diversify their markets.

While the Budget doesn't offer much financial relief to female workers currently impacted by Coronavirus, the government is committing $240 million over four years towards a range of employment initiatives for women. These include increasing female workforce participation in male-dominated industries such as construction.

What this could mean for you

With the pandemic causing massive job losses around the country, these measures are designed to get as many Australians back to work as possible. While some industries may currently offer more opportunities than others, it's likely that many industries will be in a state of flux for years to come.

Find out more

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