

Federal Budget Oct 2022 Summary



25 October 2022

This year's Federal Budget focuses on providing relief for those with children, homebuyers and social security recipients whilst maintaining pre-election commitments.

Note: These changes are proposals only and may or may not be made law.

Summary

Personal taxation

- **No changes to personal income tax:** The Budget did not contain any measures announcing changes to personal income tax. This includes:
 - no changes to the Stage 3 tax cuts which will take effect from 1 July 2024, and
 - no extension of the Low and Middle Income Tax Offset, which ended 30 June 2022.

The table below summaries the current personal tax rates and the changes from 1 July 2024:

Tax rate	Current personal tax rates	Personal tax rates from 1 July 2024
Nil	0 - \$18,200	0 - \$18,200
19%	\$18,201 - \$45,000	\$18,201 - \$45,000
30%	-	\$45,001 - \$200,000
32.5%	\$45,001 - \$120,000	-
37%	\$120,001 - \$180,000	-
45%	\$180,000+	\$200,000+

Note: applies to resident taxpayers and ignores Medicare levy.

Federal Budget Oct 2022 Summary

25 October 2022

Impact on cashflow

The first column in the table below outlines the additional tax payable in the current financial year due to the abolition of LMITO. The second column outlines the tax cuts available from 1 July 2024 compared to the current financial year (without LMITO) under the Stage 3 changes.

Taxable income	Additional tax payable – removal of LMITO [^] in 2022/23	Tax savings from 1 July 2024 ^{^^} - change in thresholds and tax rates
\$20,000	\$0	\$0
\$40,000	(\$900)	\$0
\$60,000	(\$1,500)	\$375
\$80,000	(\$1,500)	\$875
\$100,000	(\$1,200)	\$1,375
\$120,000	(\$600)	\$1,875
\$140,000	\$0	\$3,275
\$160,000	\$0	\$4,675
\$180,000	\$0	\$6,075
\$200,000 or more	\$0	\$9,075

[^] Additional tax payable in 2022/23 compared to 2021/22 financial year

^{^^} Tax savings in 2024/25 compared to 2022/23 financial year

- **Helping enable electric car purchases:** For purchases of battery, hydrogen, or plug-in hybrid cars with a retail price below \$84,619 (the luxury car tax threshold for fuel efficient vehicles) after 1 July 2022, fringe benefits tax and import tariffs will not apply. Note: Employers will still need to account for the cost in an employee's reportable fringe benefits. This measure does not apply to hybrid electric cars without the capacity to plug into the electrical grid.

Home ownership

- **Housing affordability measures:** A key focus of the Budget were measures to help individuals secure housing. This is expected to occur largely via the Housing Accord – which will bring Federal, State and Local Governments together to work on housing affordability and homelessness. Measures announced include:
 - A commitment to the **'Help to Buy' scheme** which will support first home buyers to buy a home with the Federal Government being a part owner, resulting in a lower balance to be funded by the individual themselves.

Federal Budget Oct 2022 Summary

25 October 2022

Limited detail was provided in the budget, the following information is based on pre-election announcement.

The scheme will provide equity support to eligible homebuyers for up to 40% of the purchase price of a new home, and up to 30% for an existing home. Homebuyers must have at least a 2% deposit and will avoid Lenders Mortgage Insurance. Eligibility for the Help to Buy Scheme includes that the person must:

- be an Australian citizen
- be aged at least 18
- earn less than the annual income cap, which is \$90,000 for a single person and \$120,000 for couples
- not own other property or land anywhere in the world
- live in the purchased home as the main residence, and
- pay all associated purchase costs, including all fees and duties, as well as all ongoing property costs.

After the initial purchase, the homeowner can purchase additional interests in the property from the Government (minimum of 5%).

- A **Regional First Home Buyer Guarantee** from 1 October 2022 which, like the existing First Home Deposit Guarantee scheme, is expected to provide up to 10,000 first home buyers with a guarantee over their mortgage, removing the need for lenders mortgage insurance.

The Government will guarantee up to 15% of the eligible purchase price. Individuals will need to have a deposit of at least 5%, which when combined with the Government guarantee, would allow mortgage insurance to be avoided. Eligibility to participate in the scheme includes that the person must:

- live outside a capital city
- have been living in the region for at least 12 months
- be aged at least 18, an Australian citizen and a first home buyer
- live in the property purchased
- have taxable income of up to \$125,000 pa (single) or \$200,000 pa (couples), and
- have lived in the regional area or adjacent regional area in the preceding 12 month period prior to executing the loan (only one member of a couple needs to meet this requirement).

Property price thresholds will also apply based on the region in which the property is located.

The scheme applies to existing properties as well as house and land packages, off-the-plan apartments and land purchased with contract to build.

Superannuation

- **Expanding eligibility to downsizer measures:** Legislation has been introduced to reduce the downsizer eligibility age from 60 to 55. This measure will take effect from the first quarter after passing into law, which is expected to be 1 January 2023.
- **SMSF and tax residency:** The Government confirmed its intention to continue with the 2021/22 Budget measure of extending the temporary trustee absence period from two years to five years and removing the 'active member' test. These changes will help SMSFs continue to maintain their Australian tax residency even while members are overseas and allow them to continue to contribute to their funds even if they become non-tax residents.
- **Three-year audit cycle for SMSFs not proceeding:** Originally announced as part of the 2018/19 Budget, it was confirmed the current Government will not proceed with this measure. Audits of SMSFs continue to be required annually.

Federal Budget Oct 2022 Summary

25 October 2022

Social Security

- **Childcare subsidy changes:** As part of a package of reforms to encourage parents to return to the workforce, the maximum childcare subsidy from 1 July 2023 will increase to 90% for families earning less than \$80,000. For every \$5,000 earned over this threshold the subsidy will reduce by 1% - reducing to zero for incomes \$530,000 or above.

The higher rate of subsidy for families with multiple children in care will continue under its current arrangements, ceasing once the eldest child reaches six years old or has been out of care for 26 weeks.

- **Paid parental leave increases:** Announced before the Budget, from 1 July 2024 the Paid Parental Leave Scheme will increase the maximum period of leave by two weeks each year – reaching a maximum of 26 weeks by 1 July 2026.

Further, from 1 July 2023 both parents will be able to access leave at the same time or enter into more flexible arrangements than currently available under the limited Dad and Partner Pay limits, and requirements to take 12 weeks as a continuous period. The paid parental leave income test will also be extended to include a \$350,000 family income test, which can be used to help families who do not meet the individual income test. Currently, the test is at an individual level (\$156,647 or less).

The following table illustrates the progressive increase in the number of weeks of PLP:

Date	Weeks of Parental Leave Pay*
Current	20
1 July 2024	22
1 July 2025	24
1 July 2026	26

*Includes 2 weeks Dad and Partner Pay.

Currently, PLP includes a continuous payment of up to 12 weeks and an additional six weeks of flexible leave, which must be used within two years of the child's birth or adoption. PLP is a taxable payment of \$812.45 per week (based on the national minimum wage).

- **Reducing assessment of former home proceeds:** For individuals on social security benefits, the temporary assets test exemption of home sale proceeds is to be extended from 12 months to 24 months. Additionally, these proceeds will only be deemed to earn a return at the lower deeming rate (currently 0.25% per annum) for this period. Note: This exemption only applies to the portion of the proceeds expected to be used in a new home purchase.
- **Work Bonus deposit for older Australians:** Announced as an outcome from the Jobs and Skills Summit, age pensioners and veterans over service pension age are expected to receive a one-off credit of \$4,000 into their Work Bonus income bank. The Work Bonus typically offsets \$300 per fortnight of income earned from employment or self-employment activities, allowing pensioners to receive a higher age pension whilst still working.

Federal Budget Oct 2022 Summary

25 October 2022

The following table outlines the impact on clients (assuming no change to their client scenario):

Client scenario	Will they benefit from an increase in the Work Bonus income bank?
Asset tested	No
Income from work of less than \$300 pf	No
Income tested and earning income from work of more than \$300 pf	Yes*

*Assumes a nil balance in the Work Bonus income bank before this change.

- **Increased income thresholds for Commonwealth Seniors Health Card:** The Government has committed to increasing the income thresholds for the Commonwealth Seniors Health Card to \$90,000 for singles and \$144,000 combined for couples.

The Commonwealth Seniors Health Card (CSHC) income thresholds are set to increase in accordance with the following table:

Client scenario	Current limit (20 Sept 2022)	New limit
Single	\$61,284	\$90,000
Couple (combined income)	\$98,054	\$144,000
Couple separated by illness, respite care or prison (combined income)	\$122,568	\$180,000

The increase for each child is unchanged at \$639.60.

Benefits of the CSHC include:

- cheaper medicine under the Pharmaceutical Benefits Scheme
 - refund for medical costs when the Medicare Safety Net is reached
 - bulk billed doctor visits at the clinic's discretion
 - one-off Economic Support Payments as determined by Federal Government
 - certain State, Territory and Local Government concessions such as utility bills, property and water rates, public transport and motor vehicle registration. These concessions can vary based on the State or Territory.
- **Deeming rate freeze:** The Government has also confirmed its intention to retain the current deeming rates until at least 30 June 2024.
 - **Plan for cheaper medicines:** From 1 January 2023, the general patient co-payment for Pharmaceutical Benefits Scheme treatments is expected to reduce from \$42.50 to \$30.

Federal Budget Oct 2022 Summary

25 October 2022

Any questions?

If you have any questions, please speak with your financial adviser who can help you to understand how these proposed changes could apply to you.



Important information and disclaimer

Sources: www.budget.gov.au

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