

FEDERAL BUDGET SUMMARY

OCTOBER 2022

INTRODUCTION

For the second time in 2022, the government of the day has delivered a Federal Budget. Last night's Budget was the first delivered by the new Labor government that was elected in May 2022.

Given the present state of the economy post-COVID, a worsening economic position due to inflation and increased global instability, rising interest rates and cost of living pressures, the Budget was conservative by nature. There were no big surprises.

While the Budget did not contain any single "hero" initiatives, it was wide ranging and introduced a variety of measures. Apart from addressing cost of living pressures, it could also be described as a "green" budget with several environmental initiatives being featured.

It goes without saying the measures announced in the Budget are not a *fait accompli*. They are subject to the successful passage of relevant legislation.

HIGHLIGHTS

ECONOMY	SUPERANNUATION	AGED CARE	MEDICATIONS
\$28.5bn in budget improvements.	Reduction in age limit for downsizer contributions confirmed.	Care facilities must have registered nurse 24/7	Cost of treatments on Pharmaceutical Benefits Scheme cut from \$42.50 to \$30 per script.

THE STATE OF THE ECONOMY

In the face of a deteriorating global economy and continuing uncertainty around the world, Australia is facing challenges despite some positive outcomes.

By way of a quick snapshot, the economic highlights include:

1. \$28.5bn in budget improvements, with the underlying cash deficit in 2022-23 expected to be \$36.9bn, down significantly from that announced in the March 2022 Budget.
2. The economy is expected to grow by 3¼% in 2022-23 before slowing to 1½% in 2023-24.
3. Unemployment is at a historic low level and is expected to remain low through until June 2024.
4. Rising interest rates and inflation are negatively impacting many families with wages growth not keeping pace with increased costs of living. Inflation is expected to hit 7¼% by the end of 2022 before starting to ease over the following two years.



SUPERANNUATION

The Budget was virtually devoid of any changes to superannuation. Concerns about a potential freeze on contribution caps and limits to the amount a person can have in superannuation did not transpire – at least not in this Budget.

However, there were two superannuation announcements that will affect some people:

Downsizer contributions

As previously announced, the government has confirmed the minimum age applying to people wishing to make downsizer contributions to superannuation will reduce from 60 years to 55 years. This change will take effect from the beginning of the first quarter following the relevant legislation receiving Royal Assent.

Self-managed superannuation funds

In the 2021-22 Budget, the previous government announced plans to amend residency rules for self-managed superannuation fund including the abolition of the active member test and extending the central management and control safe harbour from 2 years to 5 years. The government announced they plan to introduce legislation to Parliament with the changes applying from the start of the financial year following the legislation receiving Royal Assent.

Unfortunately, another announcement from the 2021-22 Budget that would have provided an opportunity for self-managed superannuation funds to exit legacy retirement products including defined benefit pensions and annuities, was not mentioned in last night's Budget.

TAXATION

While taxation did not feature broadly in this Budget, the government has previously committed to implementing the stage three tax cuts introduced by the previous government and due to take effect from 1 July 2024.

However, the government did reinforce their plans to improve integrity in the tax system through tax compliance. This includes extending compliance programs for tax avoidance, the shadow economy and personal income tax.

AGED CARE

The Government is committing \$2.5 billion over the next four years to help fund more care for older Australians and to increase nursing numbers in care facilities. The package includes:

- Mandating that facilities have a registered nurse on site 24 hours per day from 1 July 2023
- Increasing average care minutes per resident to 215 minutes per day from 1 October 2024
- Better food options which are fresh, healthy, and safe
- Strengthening regulation of aged care providers
- Capping administration and management fees charged by providers in the Home Care Packages Program

SMALL BUSINESS

The Budget included several measures designed to support the small business community.

These included supporting small and medium-sized businesses to improve energy efficiency and reduce their energy use, delivering a simpler and fairer industrial relations system, and supporting small-business well-being.

As part of their support for small business well-being, the government will commit funds to extending the tailored small business mental health and financial counselling programs, NewAccess for Small Business Owners and the Small Business Debt Helpline.

ADDRESSING THE HOUSING CRISIS

Housing Accord

The government is seeking to bring stakeholders including state and territory governments, local governments, investors, and representatives of the construction sector together to develop a Housing Accord.

The purpose of the Accord is to set a target of delivering 1,000,000 new homes by mid-2029.

As part of its commitment, the government will contribute \$350m over five years to deliver 10,000 affordable dwellings. States and territories will support delivery of up to a further 10,000 affordable homes.

Institutional housing investment

Coupled with the general low level of institutional housing investment, the government is eyeing the substantial pool of capital held within the superannuation sector as a source of potential funding for housing.

Social and affordable housing

The government previously announced its plans to establish a \$10bn Housing Australia Future Fund. Returns generated by the fund will be used to build 30,000 new and affordable dwellings over the course of the next 5 years.

Other housing measures

Other housing initiatives include:

- the Regional First Home Buyer Guarantee where the government will guarantee 15% of the purchase price for up to 10,000 eligible first home buyers in regional areas,
- Expanding the Defence Home Ownership Assistance Scheme that enables veterans and members of the Defence Force to purchase a home,
- Help to Buy – a shared equity contribution scheme that allows eligible people to buy a home, with the government as a part owner, with a smaller deposit and smaller mortgage.
- Extending the superannuation downsizer contribution opportunity.

WELFARE

Cost of medication to decrease

From 1 January 2023, the Government will decrease the general patient co-payment for treatments on the Pharmaceutical Benefits Scheme from \$42.50 to \$30.00. This provides a \$12.50 reduction per script for those paying the general rate.

More affordable childcare

The Government is investing \$4.7 billion to make early childhood education and care more affordable for Australian families. It is estimated that 96 per cent of families with children in care will be better off and no family is worse off.

From July 2023, Child Care Subsidy rates will increase up to 90 per cent for eligible families earning less than \$530,000. It is hoped that these measures will increase the hours worked by women with young children by up to 1.4 million hours per week in 2023–24 (or an extra 37,000 full-time workers).

Paid Parental Leave

The Government is investing over \$530 million over a four-year period to expand the Paid Parental Leave Scheme to provide greater support to families. By 2026, families will be able to access up to 26 weeks of Paid Parental Leave.

The Scheme will have increased flexibility as either parent will be able to claim Paid Parental Leave first and both parents can receive the payment at the same time. The reforms also allow parents to take leave in blocks as small as a day at a time, with periods of work in between.

SOCIAL SECURITY

The Government re-announced several social security measures in the budget papers. These measures provide positive changes for many pensioners who are working or considering downsizing their home as well as those looking to qualify for a Commonwealth Seniors Health Card.

Extension of asset test exemption for home sale proceeds

This measure aims to reduce the financial impact on pensioners looking to downsize their homes in the hope to minimise the burden on older Australians and free up housing stock for younger families.

From 1 January 2023, it is proposed that a two-year asset test exemption will be available for home sale proceeds that are going to be used to buy, build, rebuild, repair or renovate a new principal home. Currently, the proceeds from a home sale that are earmarked to buy, build, rebuild, repair or renovate a new principal home are only exempt from the asset test for 12 months.

Only the amount of sale proceeds that will be used for the new home are exempt. For example, if your home is sold for \$1 million and \$800,000 of this will be used for the new home, the amount exempt under the asset test is limited to \$800,000.

The impact of home sale proceeds during the exemption period will also reduce under the income test. Sale proceeds are often deemed to earn an income at the higher 2.25% rate. Under this measure, the exempt amount will have the lower deeming rate applied (currently 0.25% frozen until 30 June 2024).

Reduced impact of employment income on pensioners

Currently, the Work Bonus system allows age and veterans pensioners (both employees and the self-employed) to earn \$7,800 per year of employment income with no impact on their pension payments under the income test.

The Government has proposed to add a one-off credit of \$4,000 to their Work Bonus income bank effectively increasing the amount of exempt employment income that can be generated in this financial year from \$7,800 to \$11,800.

The additional \$4,000 income credit will be available until 30 June 2023.

Other measures supporting working pensioners include a proposal to allow employment income to exceed the income limits for up to two years without a need to re-submit a pension claim and the Pensioner Concession Card will also be retained for a period of two years where the pensioner has a nil rate of pension due to employment income.

Commonwealth Senior Health Card income thresholds increase

The Government will increase the income thresholds for eligibility to the Commonwealth Seniors Health Card to:

- \$90,000 per year for singles (up from \$61,284) and
- \$144,000 combined per year for couples (up from \$98,054)

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