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Federal budget 2022: solid, sensible and suited for the times

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"This Budget focuses on building what we need, protecting what's precious to us, and backing the people, sectors and communities strengthening our economy" – Dr Jim Chalmers, 2022-2023 Federal Budget Speech.

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It is important to remember that this material relates to proposals which have not yet been legislated, and our analysis contained here should be viewed in that context. We recommend

that you do not take any specific action until the Government provides greater detail in relevant draft legislation.

Summary

Treasurer Chalmers handed down his first Federal Budget against a backdrop of economic uncertainty, an array of geopolitical concerns and cost of living increases borne by all Australians.

Reinforcing commitments first proposed within their election campaign, key Federal Budget measures are aimed at 'Australians who battle through hard times and who believe in a better future'. This year, three central themes have emerged; responsible cost of living relief, strengthening the economy and beginning the 'hard yards of Budget repair'.

The 2022 Federal Budget comprises a tapestry of measures intricately woven together to enable Australia's response to the present volatile, uncertain, complex and ambiguous issues facing the world today to be one that emphasises the fundamental importance of fiscal responsibility in the domestic context.

This year's Federal Budget returns to focussing on core policy topics that further lay a foundation for continued overall economic stability, additional job creation initiatives and a pledge to sustain key essential services such as childcare, health and aged care, education/training and infrastructure.

A cross-agency Fraud Fusion taskforce will address systemic non-compliance within the NDIS and in doing so, will continue to preserve and defend the vital mechanism which supports the interests and dignity of the most vulnerable members of the Australian community.

Capital to expand Australia's manufacturing capability will be committed to underpin future jobs growth across crucial emerging priority segments, including vaccine products and clean energy environmental initiatives.

In line with the uncertain geo-political environment, addressing national security matters are another focus area. Environmental concerns are also front of mind for policymakers with significant sums dedicated to that objective. Furthermore, much needed assistance will be given to those communities adversely affected by recent national disasters.

Finally, measures allowing older Australians greater flexibility in terms of their living and working arrangements are also receiving targeted fiscal support.

Benefits for older Australians

1. Greater incentives for older Australians to engage in workforce participation

The work bonus for all eligible Age pensioners - Centrelink and Veterans Affairs - will be increased by a one-off $4,000 credit into a work bonus 'income bank'. This will effectively increase the amount of employment income a pensioner can earn (from $7,800 to $11,800) before they face a reduction to the amount of pension received.

What does this mean for you?

- Pensioners who want to work (or want to increase their working hours) can do so and earn more without unduly impacting their current pension entitlements.

2. Extra accessibility to the Commonwealth Seniors Health Card

Reinforcing the *Social Services and Other Legislation Amendment (Lifting the Income Limit for the Commonwealth Seniors Health Card) Bill 2022* which was initially introduced into Parliament on 27 July 2022, the income threshold for the Commonwealth Seniors Health Card ('CSHC') will increase from $61,284 to $90,000 for singles and from $98,054 to $144,000 combined income for couples.

What does this mean for you?

- Self-funded retirees of Age pension age may now be eligible for the CSHC if their income falls below these newly proposed thresholds.As these income thresholds have substantially increased, those now being eligible for the CSHC will have access to cheaper medication and other benefits such as land/water rates and transport concessions.

Social Security

3. Frozen Social Security Deeming rates

Deeming rates assess income from an individual's financial assets at a pre-determined rate (irrespective of the actual income earned), which in turn is added to other income received in order to ascertain eligibility for various Government benefits, and also in turn any payment rate.

This Federal Budget reinforces previous announcements that these deeming rates will be frozen at their current levels until 30 June 2024.

That is, the lower deeming rate will stay at 0.25% and the upper at 2.25%. From 1 July 2022, this means that the lower deeming rate is applicable for financial assets of up to $56,400 for singles and $93,600 for couples. The upper deeming rate applies beyond these dollar limits.

What does this mean for you?

- Enhanced ability exists to achieve a higher income than the deemed rate, therefore the greater capacity to receive income possibly shielded from means-testing.
- The ability to achieve a higher actual income without any impact to any benefit received will assist in mitigating against ever-increasing cost of living pressures.

Superannuation

4. Changing treatment of 'Downsizer' contributions - reduction to age 55

A 'Downsizer' contribution allows individuals to make a one-off, post-tax contribution to their superannuation of up to $300,000 per individual from the proceeds of selling a home, without it counting towards their non-concessional contribution cap.

Reinforcing the *Treasury Laws Amendment (2022 Measures No. 2) Bill 2022* which was initially introduced into Parliament on 3 August 2022, eligibility for the 'Downsizer' contribution will reduce from 60 years of age to 55 years of age.

It is intended that this measure will encourage older Australians to downsize into a home more suitable to their needs and thereby increase available housing for families.

What does this mean for you?

- Individuals may have the earlier benefit of contributing more funds into the superannuation environment, which is especially useful if they want to align a transition to retirement from the workforce (and the commencement of an income stream) with a home move – perhaps a 'sea' or 'tree' change.
- The implications of making a 'Downsizer' contribution earlier than previously will need to be considered carefully – as it could reduce, or even eliminate, any means-tested social security or DVA income support payments, that an individual may have previously been eligible to receive.
- As a 'Downsizer' contribution can only be made once yet also counts towards an individual's Total Superannuation Balance, even greater focus is needed to tailor a

contributions strategy which maximises the amount of superannuation contributions which they may choose to make.

5. Changing treatment of 'Downsizer' contributions – mitigating impact on Age pension recipients

Reinforcing the *Social Services and Other Legislation Amendment (Incentivising Pensioners to Downsize) Bill 2022* which was initially introduced into Parliament on 7 September 2022, changes are proposed which will give Age pensioners greater incentive to downsize their home, yet mitigate any impact on their benefits for the cash held in their bank accounts while they transition residences.

Specifically, the assets test exemption for principal home sale proceeds will be extended from the existing 12 months to 24 months. Also, the income test will only have the lower deeming rate of 0.25% apply to home sale proceeds when calculating deemed income for 24 months after the property sale.

What does this mean for you?

- An individual can hold additional cash in their bank accounts whilst they are looking for a suitable new home to purchase.
- An added degree of comfort is also provided if extra time is required to complete a new home build, bearing in mind the continued difficulties in obtaining raw materials due to lingering COVID-19 supply chain issues and delays to building projects generally due to the unavailability of skilled tradespersons and the sustained inclement weather.

6. Deferral of any increased flexibility for expatriate clients to make superannuation contributions to an SMSF or Small APRA Fund

In the 2021 Federal Budget handed down on 11 May 2021, it was originally proposed that from 1 July 2022, the 'active member' test for both SMSF and Small APRA Funds ('SAFs) will be abolished.

Also from this date, the 'central management and control' test 'safe harbour' will increase from two to five years.

These changes were aimed at aligning the contributions treatment for an SMSF or SAF to that of a large APRA fund. These represented very welcome measures to provide additional flexibility for offshore clients who would like to make optimal use of their fund.

Now, such measures will be deferred to allow sufficient time for consultation with relevant stakeholders and for subsequent legislation and implementation.

What does this mean for you?

- Individuals currently utilising either an SMSF or SAF structure that are temporarily overseas or intend on going overseas in the future will have greater capacity to maintain and make contributions within their preferred superannuation vehicle – although the specific timeframe for this to occur is uncertain at this point.

Digital currencies

7. Clarification that digital currencies will not be taxed as foreign currency

Spurred on by the decision of the Government of El Salvador to consider digital currencies as legal tender, this measure clarifies the treatment of digital currencies and confirms they will not be taxed as foreign currency. While the practical treatment of digital currencies was for them to be excluded as foreign currency in relation to their income tax treatment, this position was uncertain, leaving many in limbo surrounding the treatment of their investments in this space.

What does this mean for you?

- Backdated from 1 July 2021, there will be greater certainty surrounding the tax treatment of digital currencies achieved by confirmation that they will not be taxed as a foreign currency.
- Digital currencies issued by (or under the authority of) a government agency will continue to be treated as foreign currency and taxed accordingly.

Housing affordability

8. Further support for housing affordability

Home ownership measures provide further support for housing affordability. The announcement of a New Housing Accord is aimed at providing the framework for Government, investors and the construction sector to collectively address the current housing crisis.

This will be arrived at using a multifactorial approach.

Firstly, by addressing the source of investment to fund building initiatives, using a mechanism to facilitate greater input from institutional investors (including superannuation funds) in a manner that meets twin objectives; addressing an issue of national importance plus an investment that is in the underlying investor/member's financial interest.

Secondly, by a focus on refining issues surrounding land release and zoning policies.

Finally, ensuring these homes are built to a high energy efficiency rating and also constructed in alignment with programmes supporting the training of more apprentices underpins existing commitments from the Albanese Government to tackle two important contemporary issues of our time – climate change and alleviating skill shortages in critical industries.

What does this mean for you?

- Enhanced home affordability for those who need additional support
- Enabling superannuation funds to access an emerging asset class which may have diversification value

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