2021/22 FEDERAL BUDGET REPORT

May 2021

Minimum Superannuation Guarantee (SG) Threshold Scrapped

The Government will remove the current $450 per month minimum income threshold for compulsory minimum SG contributions, with a targeted effective date of 1 July 2022. SG contributions must be paid on all eligible income from this date. This measure is expected to increase SG contributions for around 300,000 individuals.

The minimum threshold, which was put in place, in part, to ease the paper-work burden on small business, has increasingly been in the spotlight given the digitalisation of most payroll processes, especially under Single Touch Payroll and in a gig economy whereby workers may have multiple jobs.

Expected commencement: 1 July 2022

Partial Removal of the Work Test

The Government has announced the abolition of the work test on non-concessional and salary sacrifice contributions made by individuals between 67 and 74 (inclusive). The work test applied from age 65 for income years up to 2019-2020 and was raised to 67 in the current Financial Year. The work test meant that a superannuation fund could only accept contributions for individuals (over 65) employed for at least 40 hours in a 30-day period during the Financial Year, unless they met an exemption.

The work test will no longer apply and superannuation funds can accept non-concessional contributions and salary sacrifice contributions for individuals under age 75, regardless of their work status, subject to the existing contribution caps.

The work test will still apply to personal deductible contributions.

Expected Commencement: Start of first financial year after Royal Assent

Changes to Superannuation and Housing Measures

The 2021/22 Federal Budget announced two changes relating to existing superannuation and housing measures.

The first is an extension of the Downsizer Contribution Scheme. The Scheme currently applies to individuals over 65 for amounts up to $300,000 on the sale of a primary residence that was owned for 10 or more years. The contribution is exempt from the non-concessional contributions cap and the restriction on contributions for individuals with balances over the transfer balance cap ($1.7 million from 1 July 2021).

The Scheme will be expanded and will apply to individuals over 60 rather than 65, once it commences, which is expected to be 1 July 2022.

We note that a primary residence is not assessed for age pension assets test, but superannuation balances generally are. As such, there may be age pension implications from accessing the Scheme.

The second announcement is an increase in the maximum amount of voluntary contributions that can be released under the First Home Super Saver Scheme (FHSSS) from $30,000 to $50,000. This is expected to apply from 1 July 2022.

The 2021/22 Federal Budget also makes some technical changes to applications under the FHSSS, including increasing the ATO's discretions and allowing individuals to withdraw an application, noting there are quite specific rules that individuals wishing to access the FHSSS need to follow.

Expected commencement: 1 July 2022

Flexibility to Convert Legacy Retirement Products

The Government has announced that it will legislate to give individuals in certain legacy retirement income products a two-year period to fully commute their benefits and transfer out of these products. This will take effect from 1 July after Royal Assent of the enabling legislation.

The products covered are market-linked, life-expectancy and lifetime annuities/pensions, which commenced prior to 20 September 2007. Lifetime pensions provided by APRA-regulated defined benefit funds or public sector defined benefit schemes are not included.

These legacy products may restrict the individuals' access to capital and drawdowns and this measure is designed to give them greater access to their money for large expenses, such as aged care or health.

Their commuted amounts will be transferred into a superannuation fund in the accumulation phase, from where they can choose to commence a new retirement income product and/or take a lump sum benefit.

While the social security treatment that applied in the legacy product will not carry over to any new product, certain valuation methods of the legacy product continue to apply (e.g. for the transfer balance cap). The social security and taxation impacts of taking up the conversion option can be quite complex and individuals should consider seeking financial advice.

Expected Commencement: Start of first financial year after Royal Assent

Changes to the Pension Loan Scheme

The Pension Loan Scheme (PLS) is a reverse mortgage loan arrangement, which allows eligible individuals to access equity from their home and boost their income in retirement. For individuals on the full age pension, the maximum loan amount is 50% of the age pension, while self-funded retirees can access up to 150% of the age pension amount. The loan is secured against an individual's Australian property and the payments are fortnightly.

From 1 July 2022, the Government will look to make 2 changes to the PLS:

- No negative equity guarantee – borrowers or their estate will not owe more than the market value of the secured property; and
- Eligible individuals will be able receive an advance each year of 50% of the maximum yearly age pension amount under the PLS.

Both measures seek to increase the attractiveness of the PLS which, like the reverse mortgage loan market more broadly, has had limited take-up.

Expected commencement: 1 July 2022

Women's Retirement Security

The removal of the minimum SG threshold is part of a broader set of measures outlined in the Women's Budget Statement. While this Statement largely summarises the changes made in the recent past that benefit women, it does introduce some new initiatives targeting safety, health and wellbeing and economic security, which includes superannuation, housing and childcare.

The $450 minimum income SG threshold, for example, has received additional scrutiny in recent years, given it has a disproportionate impact on women's retirement outcomes, as women make up a higher proportion of the part-time or casual workforce that may be impacted by the minimum threshold (around 63% of all those impacted).

The Government abandoned implementation of a superannuation early release scheme for domestic violence victims, which was announced in 2017 and was subject to extensive consultation.

The more recent "Retirement Income Review" (released in November 2020) has fuelled debate on the materially different outcomes for women in retirement. The Review noted that the gap in male and female superannuation balances is around 17% for full-time workers and 33% for part-time or casual workers. Total earnings and, therefore, superannuation balances, are on average lower for women, largely due to the gender wage gap (due to pay inequality and differences in roles men and women have taken) and more career breaks (generally due to maternity or carer's leave taken).

No Change to the Superannuation Guarantee Increase Schedule

Despite comments from members of the Government following the release of the Retirement Income Review in November 2020, the 2021/22 Federal Budget did not announce any change to legislated Superannuation Guarantee (SG) increases.

The Superannuation Guarantee Rate is scheduled to increase by 0.5% of ordinary time earnings (OTE) each year over the next five years as follows:

Period	Superannuation Guarantee Rate (% of OTE)
1 July 2021 – 30 June 2022	10.00
1 July 2022 – 30 June 2023	10.50
1 July 2023 – 30 June 2024	11.00
1 July 2024 – 30 June 2025	11.50
1 July 2025 – 30 June 2026 and thereafter	12.00

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and the Treasurer stated last year that any decision to change the schedule of increases would be made in this Budget.

However, the Government has decided to make no changes now and to allow at least the next increase to 10% from 1 July 2021.

While the Retirement Income Review supported the view that any SG increases will result in a reduction in wages growth, we would expect the tax cuts announced in the previous budget to help cushion any actual impact, countering some of the arguments that have been made against the scheduled increases. Also, the recovery in the economy and employment has been faster than was anticipated last year.

Going ahead with the SG increases provides an opportunity to rebuild retirement savings after the impact of the COVID-19 Early Release Scheme, which has seen over 3 million members withdraw over $36 billion from the superannuation system. Although, the people who accessed super under that Scheme are not necessarily those who will benefit from the SG increases and there may be future consideration of other changes, similar to the scrapping of the $450 minimum income SG threshold in this Budget, to improve equity in the superannuation system.

SMSF Trustee Residency Changes

The Government has proposed the relaxation of residency requirements, which would allow members of self-managed superannuation funds (SMSFs) and small APRA-regulated funds (SAFs) to continue to contribute, where the trustee/member is (temporarily) overseas. Subject to the legislation passing, the central control and management test safe harbour will be extended from 2 to 5 years and the active member test will be removed.

Expected commencement: 1 July 2022

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