2020–21 Federal Budget Brief

Major superannuation announcement

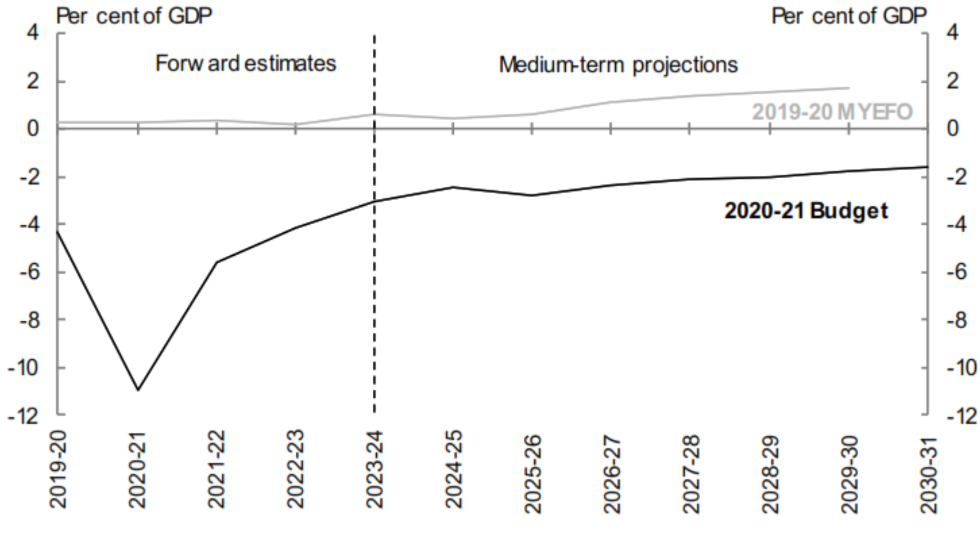
- A substantial package of superannuation reforms commencing 1 July 2021 (p164-165 of BP2) that are estimated to save consumers $17.9 billion over the next 10 years:
    - Implement the Royal Commission's 'stapling' recommendation, where an employee takes with them their account from fund to fund when they change employment.
    - Introduce an ATO administered 'Your Super comparison tool' from which people can compare and choose a fund.
    - New protections for members from funds that deliver poor outcomes by requiring funds to meet an annual performance test, and if funds fail the test they will be required to inform members and, after two failed tests, no longer be allowed to receive new members until their performance improves.
    - Regulation to ensure funds only spend members' savings on activities that are in their best financial interests to maximise their retirement benefit.
- The superannuation package is designed to address the 3 million accounts in underperforming super funds, which manage over $100 billion of their retirement savings. The reforms are in addition to the $2.9 billion held in multiple accounts that has recently been consolidated on behalf of 1.4 million Australians.

Economic & Fiscal overview

The Budget confirms a significant deterioration in the Government's fiscal position, and a significant adjustment in the Government's fiscal strategy focussing on fiscal support and structural reforms before budget repair. Once the unemployment rate is "comfortably" below 6%, the Government will move towards stabilising then reducing gross and net debt, controlling expenditure growth and having a cap on tax to GDP of 23.9%.

The deterioration in the fiscal position is particularly clear in this graph from the Budget, comparing the forecasts from tonight's Budget with the forecasts released last December:

Chart 4: Underlying cash balance as a share of GDP



Budget deficit

- The Budget forecasts a large deficit for 2020–21 (the current financial year), and every year in the forward estimates. The Budget position has significantly worsened in every year compared to previous forecasts in last year's MYEFO.
- The deficit figures are in the table below in dollar terms and as a share of GDP.

Budget deficit	2019-20 (actual)	2020-21	2021-22	2022-23	2023-24
$bn	-85.3	-213.7	-112.0	-87.9	-66.9
% of GDP	-4.3	-11.0	-5.6	-4.2	-3.0

Net debt	2019-20 (actual)	2020-21	2021-22	2022-23	2023-24
$bn	491	703	812	900	966
% of GDP	24.8	36.1	40.4	42.8	43.8

Tax revenue is forecast to decline in nominal terms for the coming two years. Revenue is well below forecasts in last year's MYEFO.

Tax receipts	2019-20 (actual)	2020-21	2021-22	2022-23	2023-24
$bn	431.8	424.6	413.8	442.9	487.6
Change on prev year (%)	-3.7	-1.7	-2.6	7.0	10.1
% of GDP	21.8	21.8	20.6	21.1	22.1

Headline economic figures

	2019-20 (actual)	2020-21	2021-22	2022-23	2023-24
Real GDP	-0.2	-1.5	4.75	2.75	3.0
Employment growth	-4.3	2.75	1.75	1.0	1.75
Unemployment	7.0	7.25	6.5	6.0	5.5
CPI	-0.3	1.75	1.5	1.75	2.0
Wage price index	1.8	1.25	1.5	2.0	2.25

GDP is percentage change on previous year, unemployment is figure in June quarter, other figures are growth through the year to June.

Superannuation

The Budget included a substantive package of superannuation reforms that will have a cost to revenue of $159.6 million over four years. The package includes:

- Employees will be 'stapled' to their super fund and take it with them from job to job;
- An ATO 'Your Super' portal will be created that will allow employees to select a superannuation product through the portal:
- From July 2021 APRA will conduct benchmarking tests on the net investment performance of MySuper products, with products that have underperformed over two consecutive annual tests prohibited from receiving new members until a further annual test that shows they are no longer underperforming.
- Benchmarking will be extended to non-MySuper accumulation products where the decisions of the trustee determine member outcomes from 1 July 2022.
- The funding for this initiative will be met through an increase in levies on regulated financial institutions.

- Improved transparency and accountability of superannuation funds by strengthening obligations on superannuation trustees to ensure their actions are consistent with members' retirement savings being maximised.

There were other, unrelated superannuation measures also announced, including:

- $15 million in additional funding for the ATO to combat serious and organised crime in the superannuation system.

The following previously announced measures are restated in the Budget:

- The Government will amend the Treasury Laws Amendment (Reuniting More Superannuation) Bill 2020 which facilitates closure of ERFs to adjust various reporting and rollover dates.
- The start date for the 2018-19 measure — increasing the maximum number of allowable members in self-managed superannuation funds and small APRA funds from four to six has been revised from 1 July 2019 to the date of Royal Assent of the enabling legislation.
- The start date for the 2019-20 measure — reducing red tape for superannuation funds (exempt current pension income changes) has been revised from 1 July 2020 to 1 July 2021.
- The start date for the 2015-16 measure Cutting Red Tape – lost and unclaimed superannuation, to allow the ATO to pay lost and unclaimed superannuation amounts directly to New Zealand KiwiSaver accounts, has been revised from 1 July 2016 to six months after the date of Royal Assent of the enabling legislation.
- The Government confirmed its previously announced deferral of the commencement of the Retirement Income Covenant, from 1 July 2020 to 1 July 2022 to allow continued consultation and legislative drafting to take place during COVID-19. This will also allow finalisation of the measure to be informed by the Retirement Income Review.

Life Insurance and Mental health

There were no specific life insurance reforms announced, however there was a considerable focus on mental health, particularly in relation to the impact of COVID-19. Announcements included:

- $100.8 million over two years from 2020-21 to provide up to 10 additional psychological therapy sessions each calendar year nationally. This will increase access to mental health care for all Australians who are experiencing more severe or enduring mental health impacts from the COVID-19 pandemic.
- $62.1 million over four years from 2020-21 to improve access to mental health services, including:
  - $45.7 million over four years from 2020-21 to expand the Individual Placement and Support program under the Youth Employment Strategy to assist vulnerable young people with mental illness to participate in the workforce.
  - $6.9 million over two years from 2020-21 to support digital mental health services including the Australian Government's mental health gateway Head to Health.
  - $5.0 million in 2020-21 to provide parents, guardians and carers with mental health and career information for students in the context of the COVID-19 pandemic
  - $2.3 million over four years from 2020-21 to enhance the National headspace network by upgrading the Mount Barker service in South Australia to a full centre.
  - $2.1 million in 2020-21 for the Prevention Hub led by the Black Dog Institute and Everymind to continue to advance research that targets people at heightened risk of mental ill-health and suicide.
- $101m over four years from 2020-21 for veterans' mental health support and services.

Funds Management & Financial Services Taxation

- A commitment to "modernise and expand" Australia's tax treaty network. The Government argues this will lower the cost of doing business overseas, attract skilled workers, promote trade and investment. The Government will prioritise "refurbishing" treaties with "strategic partners where necessary".
- The list of Exchange of Information (EOI) countries, eligible for lower MIT withholding tax rates, will be expanded to include Dominican Republic, Ecuador, El Salvador, Hong Kong, Jamaica, Kuwait, Morocco, North Macedonia and Serbia while Kenya will be removed.
    - The addition of Hong Kong is welcome and was a specific FSC request in our 2020-21 Pre-Budget submission.

Taxation – General measures

- An additional $17.8 billion in personal tax reductions, consisting of increasing the low income tax offset, increasing the top threshold for the 19% bracket from $37k to $45k, increasing the top threshold for the 32% bracket from $90k to $120k, postponing the end of the Low and Middle Income Tax Offset (LMITO).
    - This is estimated to boost GDP by $3.5bn in 2020-21 and by $9 billion in 2021-22.
    - The total cost of these combined measures is $17.8bn over the forward estimates.
- Temporary full expensing available for 3.5m businesses (businesses with turnover up to $5bn).
    - The measure starts from Budget night until 30 June 2022 and costs $26.7bn over the forward estimates.
- Temporary loss carryback for 1 million businesses (with turnover up to $5bn). The measure applies for losses incurred in the tax years 2019-20, 2020-21, and/or 2021-22 and losses in these years can be applied to profits made in years in or after 2018-19. The measure is expected to cost $4.9bn over the forward estimates.
- The combined effect of the full expensing and loss carryback is forecast to increase GDP by $2.5bn in 2020-21 and $10bn in 2021-22.
- Various changes to previously announced R&D measures, including an increase in the refundable tax offset for small business, and streamlining the intensity test for larger business. The new rates will be the claimant's company tax rate plus 8.5 percentage points for initial R&D expenditure up to 2 per cent R&D intensity, and 16.5 percentage points for R&D expenditure above 2 per cent R&D intensity.
- Reducing record keeping for FBT – allowing businesses to use existing corporate records rather than prescribed records (for example, employee declarations).
- Exempting employer-provided training from FBT.
- Amending the corporate residency test so that a company that is incorporated offshore will be treated as an Australian tax resident if it has a 'significant economic connection to Australia'. This test will be satisfied where both the company's core commercial activities are undertaken in Australia and its central management and control is in Australia.
    - The Government argues this returns the residency test to the test that applied before the 2016 Bywater court decision.
    - The measure will take effect from the income year following Royal Assent, but taxpayers will have the option of applying the new rules from 15 March 2017 (the date that TR 2004/15 was withdrawn)
    - The Budget does not specifically state that this measure applies to residency of managed funds.

Relevant spending measures

- The superannuation measures (see above) are forecast to cost the Budget $159m over the forward estimates.
- A new JobMaker hiring credit for every new job created for a person aged 16 to 35 for next 12 months, of $200 per week for a person 16 to 29 and $100 for a person 30 to 35. The credit lasts for 12 months from the employee's start date. The measure costs $4bn to 2022-23.
- A $240m spend on the Women's Economic Security Statement including:
    - Expanding the Women's Leadership and Development Program
    - Establishing a Respect@Work Council
    - Expanding the Boosting Female Founders
    - A STEM Industry Cadetship or Advanced Apprenticeship for women
- A provision of $256 million in the expansion of the Digital Identity system over the next two years.
- Spending of $9.6 million to enhance support for Australian fintech start-ups to gain a foothold in international markets and to encourage foreign investment and job creation in Australia.
- Spending of $86 million over 4 years for a new ICT platform for managing foreign investment applications.
- Increased funding for APRA of $28.8m over the forward estimates to boost its capacity to respond to risks within the financial system, with costs to be recovered from industry.

Regulatory changes

- Allow AGMs to be held electronically and support electronic execution of documents
- There will be a detailed evaluation of laws regulating corporations, credit, superannuation, insurance, banking, consumer protection and competition focusing on technology neutrality.