What the 2021 federal Budget means for you

After one of the most challenging years in living history, the 2021–22 federal Budget has been designed to boost Australia's economic recovery.

On a more personal level, the Budget announced by Treasurer Josh Frydenberg on 11 May includes provisions that will have a major impact on your personal and business finances.

Young medical professionals

Expansion of the First Home Super Saver (FHSS) Scheme

The 2020-21 Budget will help more young medical professionals gain a foothold in the property market. The Government will assist by increasing the amount that first-home buyers can release from their superannuation account for the purchase of a home.

From 1 July 2021, the amount will increase from $30,000 to $50,000, provided participants live in the purchased home.

The FHSS Scheme enables you to make voluntary contributions to superannuation that can later be withdrawn for the purchase of your first home. This withdrawal includes any investment earnings that have accrued during the time the money was held in the super account.

All voluntary contributions to super made from 1 July 2017, up to the permissible amount of $15,000 per year, will be counted towards the total available for release under the FHSS Scheme when you're ready to buy your first home.

Super guarantee rate to increase according to schedule

The superannuation guarantee – the payment your employer makes into your super account – will increase from the current 9.5% to 10% as of 1 July 2021.

This is the first of a series of 0.5% annual increases – 10.5% as of 1 July 2022, 11% as of 1 July 2023, 11.5% as of 1 July 2024 – until a superannuation guarantee level of 12% comes into effect as of 1 July 2025.

Childcare subsidy to increase

Treasurer Frydenberg also announced a $1.7 billion measure that will ease the childcare squeeze for younger families with two or more children under the age of five.

The childcare subsidy for these families will increase to a maximum of 95% of costs. This means that working parents should be able to secure childcare for a second child for as little as six dollars per day, providing a benefit worth thousands of dollars each year to families.

These measures will also abolish the $10,000 limit on rebateable childcare fees. This means higher-income families will no longer face the prospect of full childcare fees at the end of the year when the $10,000 cap is reached.

However, there are some restrictions to this program. As previously stated, the 95% rebate only applies to families with two or more children under the age of five. So, in the event one child reaches their sixth birthday and commences school, the measure will no longer apply.

Due to technical difficulties in automating this benefit, the childcare subsidy measure will be delayed by one year, only coming into force on 1 July 2022.

Established medical professionals

Work test rule to be abolished

The 'work test rule' requires people aged between 67 and 74 years to work at least 40 hours over a consecutive 31-day period to qualify for voluntary super contributions. This rule applies to salary sacrifice and after-tax contributions.

Treasurer Frydenberg announced that, as of 1 July 2022, the work requirement will be repealed. Therefore, the work requirement will not apply to anyone under the age of 75 years who:

- makes salary sacrifice contributions into super
- makes non-concessional personal contributions into super that include the three-year carry-forward provision.

The superannuation carry-forward provision enables account holders younger than 65 years of age and with a total super balance of less than $1.7 million, to make three years' worth of non-concessional contributions in a single year.

With the non-concessional limit increasing to $110,000 per year, it will become possible to 'bring forward' up to $330,000 in non-concessional super contributions over a single year.

In the case of couples, multiply that amount by two for a total of $660,000. Also, legislation currently before the Australian Parliament would increase the age limit to 67 years.

Bear in mind that before 1 July 2022, for people aged 67 to 74 years, the work test rule remains in force.

Home downsizer contributions for persons over 60 years of age

The home downsizer scheme enables Australians nearing retirement to make a one-off post-tax contribution of up to $300,000 per individual or $600,000 per couple.

Downsizer contributions are not counted towards concessional ($27,000) and non-concessional super contribution caps ($110,000 or $330,000 over three years). They're extra. They can be made after the sale of a person's primary residence, provided that home has been owned by the seller for at least 10 years.

As of 1 July 2022, the minimum age for home downsizer super contributions will be dropped from 65 to 60 years.

People with super balances in excess of the transfer balance cap – $1.7 million as of 11 July 2021 – will be authorised to make a downsizer contribution to super, although that downsizer amount will be counted towards the transfer balance cap when savings are converted to retirement phase.

other budget provisions of interest

Super guarantee threshold elimination

Employers have generally been required to pay superannuation to employees who are over the age of 18, and who earn more than $450 per month.

In a measure designed to benefit lower income Australians – most of whom are women – the Budget includes a measure to eliminate this $450 threshold so that all eligible employees will receive superannuation guarantee payments, regardless of the amount they earn.

Visibility of superannuation assets in divorce/separation settlements

As superannuation is considered to be a household asset, the ATO will reveal superannuation balances to the Family Court of Australia during divorce or separation proceedings.

Business instant asset write-off tax break extended

The business instant asset write-off tax break will be extended for another year to 30 June 2023, enabling business to claim deductions upfront, rather than through depreciation.

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For further information or to book a meeting with your adviser, please phone 03 9863 3111