PROFILE
FINANCIAL SERVICES

FEDERAL BUDGET ANALYSIS

MARCH 2022

CONTENTS

BUDGET OVERVIEW

As expected, this is a safe, election friendly Budget that broadly focusses on creating jobs, dealing with the cost of living pressures we are facing, improving the opportunity for home ownership, and providing continued investment in health services. This budget is also driving digitisation for small business to further support innovation and economic growth.

In handing down the 2022-23 Federal Budget, the Hon. Josh Frydenberg MP, had a definite air of confidence that the Government's fiscal policy response to the "biggest economic shock since the Great Depression" had been highly effective, as evidenced by the resilience of our economy.

In the run-up to the election in May, many forecast this to be a 'cash splash' Budget, but considering the measures announced, it is arguable that this was not the case. Why? Because the Government is at pains to have the community associate them with being fiscally responsible in the current economic environment and with significant Government debt resulting from previous and forecast budget deficits, they can only go so far.

It was not surprising that the focus of this Budget was managing the increases to the cost of living for Australians and further developing their 'plan for a stronger future'.

The measures announced are aimed to combat the rising costs of living in a 'temporary, targeted and responsible' manner, such as the halving of the fuel excise for a period of 6 months, the cash payment in April of $250 for many social security recipients and the increase to the Low and Middle Income Tax Offset. These front-end loaded measures will deliver assistance to those who need it, however, there are many for whom there will be no improvement to their bottom line.

The focus on continuing to strengthen the economy by encouraging small business to further invest in digitisation, the increase in the number of Australians taking up and completing trade apprenticeships, further investment in infrastructure projects, and also boosting our sovereign manufacturing capacity should all be viewed in a positive light. Mr Frydenberg commented during his address that "The dignity of work is important for all Australians" and ensuring access to skilled, secure, and well-paid jobs is essential for all Australians and our future.

The key Budget measures announced included the following:

- Fuel excise will be cut in half for the next six months, saving Australian's 22.1 cents per litre;
- A new one-off $420 cost of living tax offset for more than ten million low-and-middle income earners;
- A new one-off $250 Cost of Living Payment, delivered within weeks to six million Australians currently receiving social security benefits;
- An extension to the temporary reduction in superannuation pension minimum drawdown rates until June 2023;
- $2.8 billion investment to increase take-up and completion rates for trade apprenticeships, providing $5,000 payments to new apprentices and up to $15,000 in wage subsidies for employers who take them on;
- $3.7 billion investment in an additional 800,000 training places and the funding of new and expanded programs to help find employment for disadvantaged youth, Indigenous Australians, the mature aged and Australians with a disability;
- The Government will introduce a 'technology and investment boost' to support digital adoption in eligible small businesses offering a tax deduction of 120% for every $100 spent, with an annual cap of $100,000 in each qualifying income year;
- Changes to the GDP 'uplift rate' that is used to calculate quarterly PAYG tax and GST instalments. The rate will sit at 2% for the 2022-23 financial year which will mean lower minimum instalments;
- $7.4 billion investment in more dams and water projects to improve vital water security, expand irrigation and develop employment in regional centres;
- $2 billion regional accelerator program to invest in skills, education infrastructure, export market development and supply chain resilience for our regions;
- $1.3 billion telecommunications package to expand mobile coverage across 8,000km of regional transport routes;

- $482 million into measures that will provide greater flexibility and choice about how to manage work and care, and support women into more diverse industries, jobs of the future and leadership positions;
- A new $1.3 billion package to end violence against women and children;
- Expansion of the Paid Parental Leave system;
- Greater access to cheaper medicines for 2.4 million Australians and greater access to mental health support and suicide prevention measures;
- Continued funding of the NDIS and further support for the Aged Care sector; and
- Increasing the Home Guarantee Scheme to 50,000 places per year.

It is always important to remember that at this point, the announcements above are only statements of intended change and need to be legislated before they can be implemented. Some measures are predicted to be adopted in the short term while others are likely to be a challenge with an election looming.

THE ECONOMY AND MARKETS

Economically responsible or politically appealing?

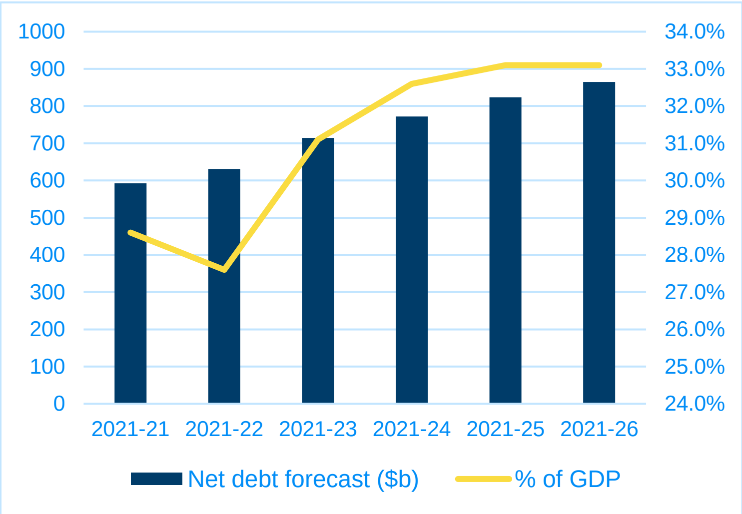
Delivering a budget in an election year is always subject to greater scrutiny, particularly the favourable aspects – is it promised for long-term good or to buy voter confidence? To understand the changes proposed, it helps to understand the economic environment we are currently in.

The content of the 2022/23 Budget continues to remind us that our economy and way of life has still not returned to full normality post the events of the Covid-19 (if it ever does?). Presently we continue to face impediments as a result of the pandemic, concerns remain about the ongoing cost to taxpayers of increasing net debt, we seek to understand whether the increase in inflation is short-term or longer-lasting and experience the by-product of rising commodity prices due to the Russia and Ukraine conflict.

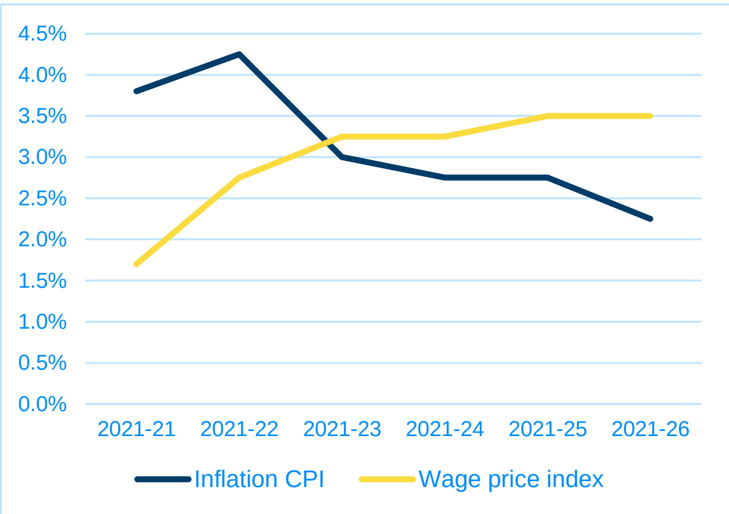
Treasurer Josh Frydenberg seemed pleased to report the cash deficit at $78 billion is lower than expected given the faster than anticipated economic recovery, solid labour market and higher than expected commodity prices. Still, the budget deficit needs repair, which is important as it helps shield Australia in the next crisis or downturn.

The forecast for major parameters reveals, increasing net debt which is reasoned as being manageable when compared as a percentage of GDP and higher inflation being transitory. The wage price growth, with very few underlying drivers, speaks to a degree of overall optimism implying the Federal Budget could be vulnerable and prone to slippage.

Charts 1 and 2: Major Economic Parameter Forecasts



Source: Budget Paper No 1

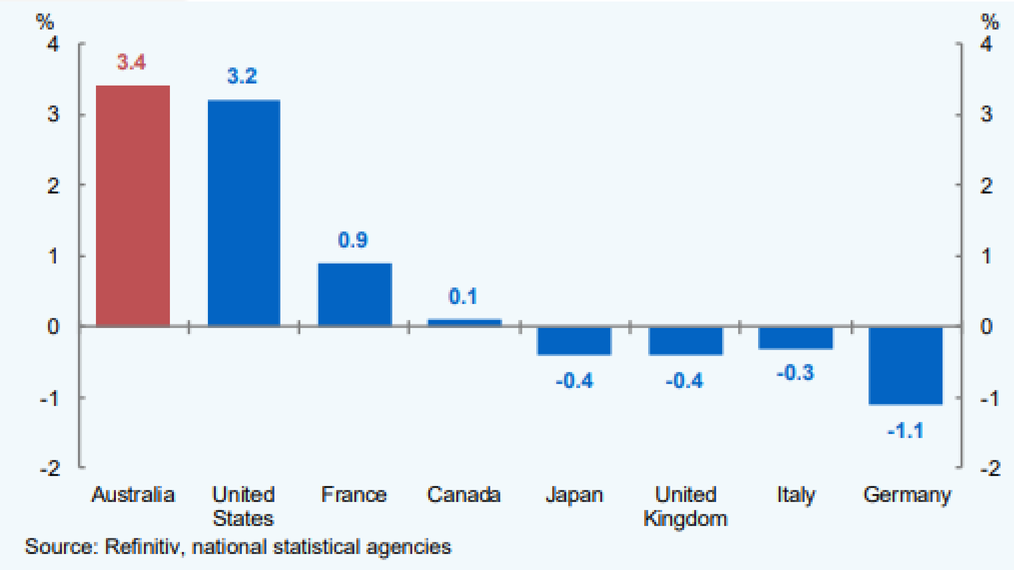


Source: Budget Paper No 1

The message from the Treasurer was of “plan for a stronger future”. The challenge is that the cost of living in Australia is rising sharply. As a result, the Government has announced tax offsets and a one-off living payment to boost the situation for low-to-middle income earners.

Australia’s debt position remains lower than other comparable countries and the impact of Covid, less noticeable than other countries, with GDP growth higher than most OECD nations over 2021. In fact, Australia has outperformed every major advanced economy. While the impact of the pandemic was momentous, the economy is now 3.4% larger than it was prior to the pandemic. Plus, Australia is one of only nine countries to have maintained AAA credit ratings from the three major rating agencies. Additionally, employment in Australia is now well above pre-pandemic levels and has grown more than other major advanced economies.

Chart 3: December 2021 GDP Relative to Pre-pandemic Levels

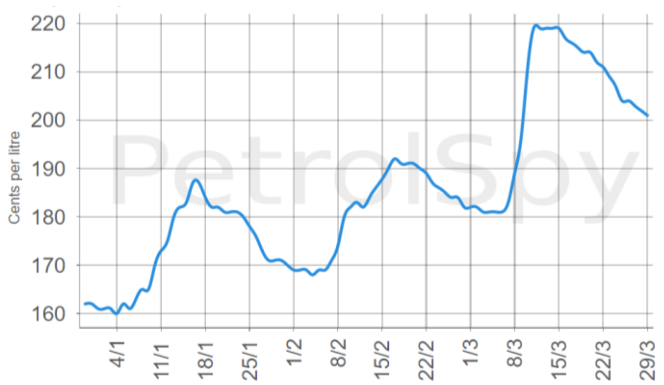


Australia’s recent healthcare performance has been supported by high vaccination rates. Over 95 per cent of Australians aged 16 and over are double vaccinated, and around 66.8 per cent of eligible Australians have received their booster.

In terms of the external factors that are impacting our economy, the war in Ukraine is of particular importance. This has a two-fold effect, an increase in oil prices, and a renewed focus on national security with a corresponding increase in defence spending.

Chart 4: Sydney Unleaded 91/E10 Retail Price over 2022

Source: PetrolSpy



Prevailing petrol prices have fluctuated dramatically from less than $2 earlier in the year to as high as $2.20 (for Unleaded 91/E10) because of the Russia - Ukraine conflict. It is worth recalling that the components of retail petrol prices are 39% for the cost of refined petrol, 42% for taxes, and 19% for other costs and margins. With the underlying base cost of oil rising, the tax revenue for petrol increases accordingly, which the government proposes to counter with a 50% cut to the rate of fuel excise for the next 6 months.

Takeaway

The key question we ask ourselves, from a helicopter view, is whether this money is being spent where there is the greatest need, namely Health Care, Education, Infrastructure, Transport, Aged Care, and Environment.

In terms of delivering a budget less than two months away from an election, the Government needed to deliver a budget that is economically responsible versus being politically appealing. Whether it struck the right balance is subjective, but noticeably the cash handouts are modest, and our perception is there exists more long-sightedness than expected. The environment is an area where more could have been done, it seems the Government is prepared for more reactionary spending in addressing the negative impacts of natural disasters, while more could be done to proactively accelerate the shift to renewable energy, which Labor will no doubt make more prominent in their shadow budget and election campaign.

Financial markets are likely to respond neutrally slightly positively given the modest range of measures. In all, the economic forecast seems optimistic, while the changes seem targeted, thoughtful, and consistent with the current Government's mandate.

SUPERANNUATION

The 2022-23 Federal Budget largely left superannuation untouched. After nearly a decade of significant and not always for the better policy changes, the last couple of years has seen greatly reduced tinkering, which is welcome. While it is nice to see regular policy updates that improve the Super system, our preference is for stability, so that people can plan for the future with confidence.

While not announced in this year's budget, some relevant limits and prior changes coming into effect on 1 July 2022 are:

Area	Update
Concessional Superannuation Contribution Cap	$27,500 (no change)
Non-concessional Contribution Cap	$110,000 or $330,000 over 3 years (no change
Superannuation Guarantee	10.5% (up from 10%) *
Work test requirement for non-concessional contribution eligibility	Aged 75 and above (up from 67)
First Home Super Saver Scheme Releasable Amount	$50,000 accessible (up from $30,000)
Low-rate cap	$230,000 (up from $225,000)
Maximum Super Contribution Base	$60,220 per quarter (up from $58,920)
Government Co-contribution ($500)	Lower income threshold - $42,016 (up from $41,112) Upper income threshold - $57,016 (up from $56,112)

*If regularly salary sacrificing, a review of the amount may be required to ensure that the increase in Super Guarantee contributions does not push you over the cap.
If your total remuneration package is structured to be *inclusive* of super, then your take-home pay may also be reduced due to this change, unless your employer chooses to absorb the increased contribution amount.

Extension of the temporary reduction in superannuation minimum drawdown rates

Date of Effect: 1 July 2022 **Who's affected: Retirees with superannuation pensions**

The Government has extended the 50% reduction in the superannuation minimum drawdown requirements for account-based pensions and similar products to 30 June 2023.

This was initially introduced in March 2020 in response to the negative impact of COVID-19 on investment markets and account balances. The reduced minimum rates facilitate the prudent management of income pension drawdowns during market volatility, allowing retirees to conserve their assets and avoid selling after markets have fallen.

Age at 1 July each year	Temporary minimum drawdown rates	Standard minimum drawdown rates from 1 July 2023
Under 65	2%	4%
65-74	2.5%	5%
75-79	3%	6%
80-84	3.5%	7%
85-89	4.5%	9%
90-94	5.5%	11%
95 or more	7%	14%

Profile's view: This was an unexpected extension in light of the strong recovery of investment markets in 2021 in which we saw all-time highs. Profile supports the objective of the Government to facilitate the preservation of retirement capital that may have been negatively impacted by recent market volatility.

For those that had incorporated an expected jump in their pension payments come July for personal cashflow planning, they may need to review their cashflow plan or pension drawing nomination.

What was missing

Who's affected: Legacy Superannuation product holders, SMSF and Small APRA Super Fund members overseas, and Paid Parental Leave recipients

Legacy superannuation product conversion and SMSF Residency requirement

Last year's federal budget announced a two-year window that would allow individuals to exit specific types of legacy retirement products (Term Allocated Pension, as well as complying life expectancy and lifetime income streams) and included plans to relax the residency requirements for SMSFs by extending the central management and control test from two to five years.

To date, we have not seen draft legislation addressing either of these and with the Government likely to be entering a pre-election caretaker period it seems unlikely they will be in place for the proposed 1 July 2022 start date. With these policies not addressed/confirmed in this year's budget, further lobbying may be required once the post-election government is in place to put them back on the agenda.

Super Guarantee contributions on paid parental leave

While this year's budget has included enhancements to the Paid Parental Leave scheme it has failed to address the lack of Super Guarantee contributions being applied to these payments.

TAXATION

For Individuals:

50% reduction in fuel excise

Date of effect: 30 March 2022 – 28 September 2022 **Who's affected: Motorists**

In response to the increase in global oil prices resulting from the conflict in the Ukraine, the Government has introduced a temporary 50% reduction to fuel excise to help with this increased cost burden on households and businesses.

Currently, the excise is 44.2 cents per litre. This will reduce to 22.1 cents per litre.

Profile's view: Profile believes this is a welcome measure with the average Australian likely to save around $12 every time they fill up their tank (22.1c x 55L tank). Based on the average price of Premium 95 of 216.3 cents per litre (at the time of writing), this equates to a 10% discount. However, the six-month timeframe might not coincide with the reduction in oil prices so we wait to see if an extension will be granted if prices continue to be high, particularly if there is a change in Government. This measure does not apply to aviation fuels, so we are unlikely to see a decrease in overseas airfares.

Cost of living tax offset

Date of effect: 1 July 2021

Who's affected: Income earners up to $126,000

In response to the increased cost of living pressures, the Government announced a one-off cost of living tax offset of $420 which increases the maximum Low and Middle Income Tax Offset (LMITO) to $1,500 from $1,080.

The LMITO is only calculated and paid after individuals lodge their 2021/22 tax returns, but it is important to note the tax offset can only reduce the tax payable to zero.

	LMITO for the 2021/2022 Financial Year	
Taxable Income ($)	**Previous Rates**	**New Rates**
0-37,000	Up to $255	Up to $675
37,001 – 48,000	Between $255 and $1,080	Between $675 and $1,500
48,001-90,000	$1,080	$1,500
90,001-126,000	Between $0 and $1,080	Between $420 and $1,500
Over 126,001	Nil	Nil

Profile's view: Profile believes that an increase to the LMITO will help low to medium-income earners in this period of increased cost of living pressures. However, the Budget did not propose an extension of the Low to Middle Income Tax Offset beyond 2021/22 which might see families struggle, along with the expected future increases to interest rates. It is important to note that this measure is a tax offset, not a payment. Therefore, it will not affect cash flow unless a tax refund is due and payable on lodgement of an income tax return.

Increasing the Medicare levy low-income thresholds

Date of effect: 1 July 2021

Who's affected: Singles, families and pensioners under the thresholds

The Government announced an increase to the Medicare levy low-income thresholds from 1 July 2021. This increase is to take into account recent rises in inflation so lower-income earners continue to be exempt from paying the Medicare levy. The changes in the thresholds are:

- Singles – the threshold will be increased from an income of $23,226 per year to $23,365 per year;
- Families* – the threshold will increase from $39,167 to $39,402 per year;
- Single seniors and pensioners – the threshold increases from $36,705 to $36,925 per year;
- Family seniors and pensioners – the threshold increases from $51,094 to $51,401 per year.

*Family taxable income includes the combined income for a couple or the income of a sole parent. For each dependent child or student, the family income thresholds will increase by a further $3,619.

Profile's view: Profile believes that increasing the threshold will be welcomed by eligible people in our current inflationary environment. However, the savings available in absolute terms may not be something to get too excited about. For example, based on the ATO Medicare Levy Calculator a single senior/pensioner earning just under the new $36,925 threshold in the Financial Year 2020/21, paid an estimated Medicare levy of $19.50. Whilst we shouldn't look a gift horse in the mouth, the impact at an individual or family level of the threshold increase is small.

For Businesses:

Employee Share Schemes – expanding access and further reducing red tape

Date of effect: 1 July 2022

Who's affected: Employers and employees of unlisted companies

This measure builds on an earlier reform to expand access to employee shares schemes for employees of unlisted companies. The expanded access means that employees at all levels (not only executives) may now choose to directly share in the business growth they help to generate.

The relatively restrictive caps on the number of options and shares that could be issued, and a $5,000 value cap, are due to be increased so participants may now invest up to:

- $30,000 per participant per year, accruable for unexercised options for up to 5 years, plus 70%of dividends and cash bonuses; or
- Any amount, if it would allow them to immediately take advantage of a planned sale or listing of the company to sell their purchased interests at a profit.

Profile's view: Employers and employees of start-ups in the technology sector, in particular, have welcomed the earlier reforms and the new changes. For employers, the changes may make them more attractive to globally mobile workers who may have been put off working for Australian companies due to limited participation in company growth and potentially adverse tax outcomes relative to other jurisdictions.

For employees, the changes provide the opportunity for them to have 'skin in the game' and combined with earlier reforms, limit the perverse tax implications of changing employers.

In the aggregate, the measure is part of a broader policy aimed at reforms to level the playing field for local start-ups, incentivising them to remain in Australia rather than moving offshore.

Making COVID-19 business grants non-assessable non-exempt

Date of effect: 13 September 2022 – 30 June 2022

Who's affected: Businesses with an annual turnover of up to $5 billion

The Government has previously enabled concessions for businesses whose operations have been significantly disrupted as a result of the response to COVID-19, including making certain business grants Non-Assessable and Non-Exempt (NANE). This is income that will not be assessed or taxed.

During this year's budget, the Government increased and extended state and territory grant programs eligible for this treatment to include:

- New South Wales Accommodation Support Grant
- New South Wales Commercial Landlord Hardship Grant
- New South Wales Performing Arts Relaunch Package
- New South Wales Festival Relaunch Package
- New South Wales 2022 Small Business Support Program
- Queensland 2021 COVID-19 Business Support Grant
- South Australia COVID-19 Tourism and Hospitality Support Grant
- South Australia COVID-19 Business Hardship Grant.

Profile's view: Profile believes classifying the above programs as NANE from a tax perspective will provide greater relief to businesses that have struggled with the restrictions brought about by the Government's responses to COVID. However, the eligibility for each package has been confusing and with long wait times when calling Government hotlines to get information, not all eligible recipients may have taken advantage of these grants.

Tax deductibility of COVID-19 test expenses

Date of effect: 1 July 2021 onwards **Who's affected: Individuals and businesses**

The cost of taking COVID-19 tests to attend a place of work (including Polymerase Chain Reaction "PCR" and Rapid Antigen Tests) will be tax deductible for individuals, retrospectively from 1 July 2021.

Fringe benefits tax will also not be incurred for businesses that make tests available for their workers.

Profile's view: For businesses, this measure alleviates concerns of an inflated tax bill, so those who have included FBT measures for COVID tests can now reallocate that capital to serve a greater use. For individuals, this may mean going back to find an invoice for your past purchases and keeping these with your tax records.

Small Business – Technology investment and training boost

Date of Effect: 29 March 2022 **Who's affected: Small Business Owners**

Until 30 June 2024 (training)

Until 30 June 2023 (expense and asset)

The Government has announced businesses with an aggregated annual turnover of less than $50 million will be eligible to claim 120% of the expenditure incurred on eligible training courses relating to technology, delivered by external providers registered in Australia.

Small businesses will also be able to deduct 120% of costs incurred (up to a $100,000 annual cap of eligible expenditure) on their digital adoption of technology enhancements such as portable payment devices, cyber security systems, or cloud-based services.

Profile's view: The proposed incentive is an opportunity for Australian small businesses to invest in their technology adoption to help achieve better security and efficiency outcomes. A lot of industries face a rapidly developing landscape and Profile supports initiatives that help small businesses capitalise on this while also investing in the education of the Australian workforce. Given the budget has been handed down earlier due to the pending election, it should give businesses ample time to plan their expenditure up to 30 June and take advantage of such measures.

SOCIAL SECURITY

Cost of Living Payment of $250

Date of effect: Payments made from 28 April 2022 **Who's affected: Centrelink payment recipients or concession cardholders**

A tax-exempt, one-off payment of $250 will be issued to the recipients of any of the following payments and concession cardholders:

- Age Pension
- Austudy and Abstudy Living Allowance
- Carer Payment
- Carer Allowance
- Disability Support Pension
- Double Orphan Pension
- Farm Household Allowance
- JobSeeker Payment
- Parenting Payment
- Special Benefit
- Youth Allowance

- Commonwealth Seniors Health Cardholders
- Pensioner Concession Cardholders
- Eligible Veterans' Affairs payment recipients and Veteran Gold cardholders

The payment will only be paid once, per person, and each member of a couple will get the payment if they are eligible in their own right. The payments will be made automatically from 28 April 2022 and will be exempt from the social security income test. Of note, holders of the Commonwealth Seniors Health Card and/or Pensioner Concession Card will be eligible for the benefit, extending the measure beyond those receiving welfare payments.

As an aside, the existing indexation arrangement saw payments increase with the maximum Age Pension payable for a single person increased by $20.10 per fortnight, and for a couple, the increase was $30.20 per fortnight. Further indexation is scheduled to occur again in September 2022. This was mentioned by the Treasurer, though it is not part of the formal Budget measures.

Profile's view: The increase in the cost of living is being felt on many fronts, the surge in fuel prices has had an effect on most, while food prices continue to increase due to a range of global disruptions. While the payment is minimal, it will be welcomed by welfare recipients who are feeling the pressure of the price increases.

Paid Parental Leave

Date of effect: 1 July 2023

Who's affected: Those with children born or adopted after 1 July 2023

Parental Leave Pay will increase from 18 weeks to 20 weeks for the primary carer of a child. However, Dad and Partner Pay, currently a two-week entitlement at the minimum wage ($772.55 per week) will be 'rolled into the Parental Leave Pay' scheme, i.e., scrapped.

Importantly, it has been proposed that the 20 weeks can be shared between both partners as they choose, giving families additional flexibility.

The individual income threshold of $151,350 p.a. will be replaced by a family income threshold of $350,000 p.a., above which a family will not be eligible for Parental Leave Pay.

These changes have not yet been legislated, which means that they may not actually occur depending upon the outcome of the 2022 election.

Profile's View

Should the Parental Leave Pay scheme be adopted then this would increase the proportion of the population eligible for this benefit to approximately 90%. Being a business with strong family values, Profile welcomes these changes to allow parents to spend more time with new children.

Home Guarantee Scheme

Date of effect: 1 July 2022

Who's affected: Homebuyers with less than a 20% deposit

As it currently stands, first-home buyers, subject to income limits and some other requirements, can purchase their first house with a 5% deposit, with the government guaranteeing the remaining 15% so that they are not required to take out Lenders Mortgage Insurance.

This has now been extended to those purchasing a house in a regional area, with the same 5% deposit requirement applying. In addition to this, single parents will be subject to a lesser 2% deposit requirement.

Note to receive this guarantee, you need to first be eligible and then apply to be included in the scheme. There are a limited number of places available, which will be increasing to 50,000 next financial year: 35,000 for first-home buyers, 10,000 for regional home buyers, and 5,000 for single parents. These numbers will decrease in subsequent financial years.

Profile's View

With these changes, we now will have in New South Wales the First Home Guarantee Scheme (replacing the First Home Loan Deposit Scheme), the Family Home Guarantee Scheme, the Regional Home Guarantee

Scheme, The First Home Buyer Assistance Scheme, The First Home Owner’s Grant Scheme, and the First Home Super Saving Scheme.

With this level of complexity, you should speak to your adviser before making any property transactions, especially if it is likely that you will be eligible for one or more of these schemes.

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