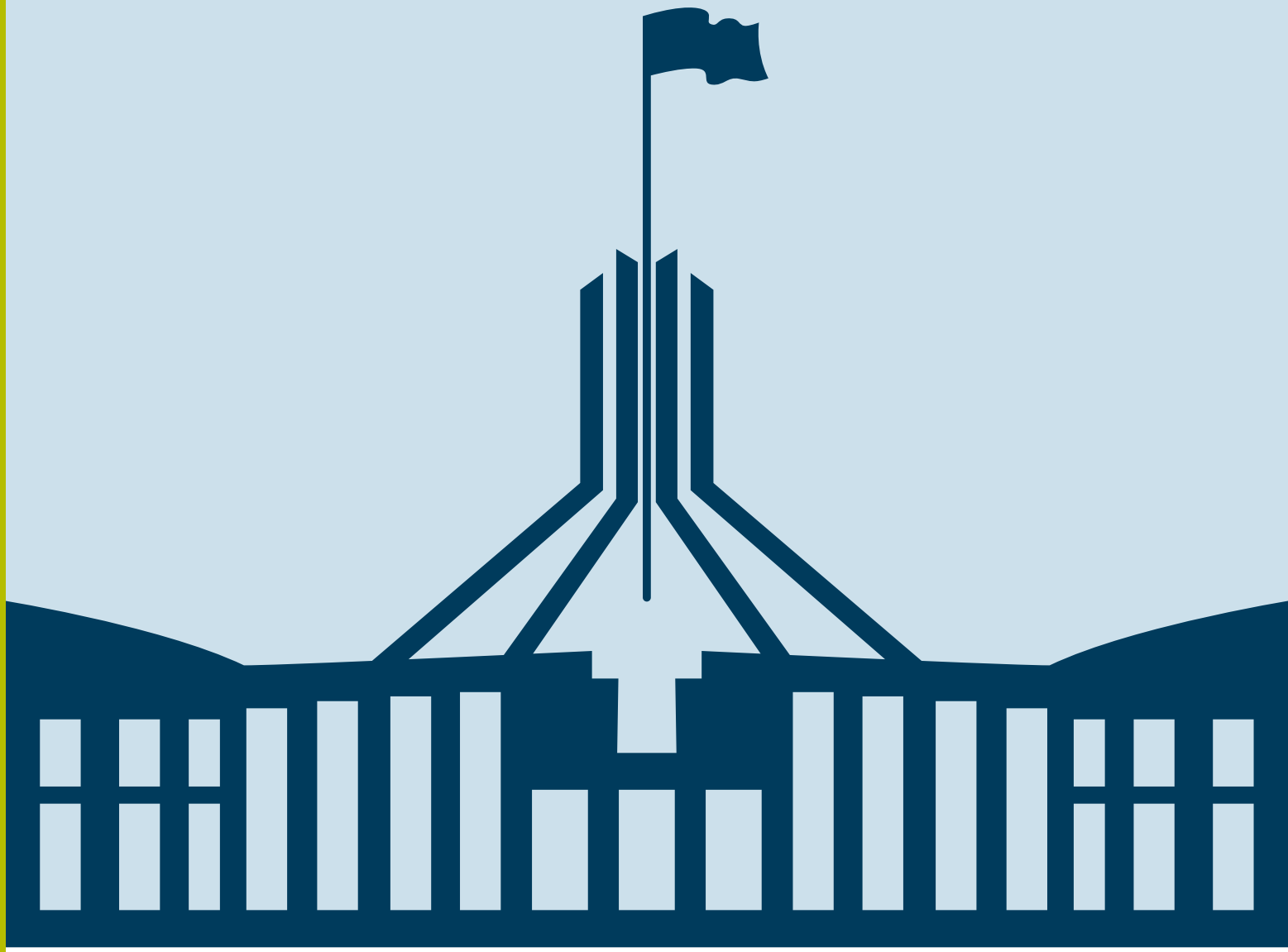
Challenger
Federal Budget
October 2022-23

For adviser use only



challenger

At 7:30pm on Tuesday 25 October 2022, the Treasurer, Jim Chalmers, released the Government's October 2022-23 Budget, the first Budget of this Parliament and Labor's first Federal Budget since 2013.

The Budget features a number of measures that will impact your advice for both pre and post retiree clients, including aged care clients, and these measures are the focus of this analysis.

It is important to note that at this time the proposed measures are not yet law and could change through implementation.

Superannuation

Expanding eligibility age for downsizer contributions to 55 and over

Downsizer contributions provide an opportunity for eligible individuals to contribute up to $300,000 to superannuation upon the sale of an eligible main residence. From 1 July 2018 until 30 June 2022, the minimum qualifying age to be eligible to make a downsizer contribution was age 65. From 1 July 2022, the minimum qualifying age was reduced to age 60.

On 3 August 2022, the Government introduced *Treasury Laws Amendment (2022 Measures No. 2) Bill 2022* into Parliament, which if legislated, will ensure that the minimum qualifying age for downsizer contributions will be reduced to age 55. This measure is currently before the Senate.

The Government reaffirmed its commitment to this proposal in the Federal Budget.

It is expected that if legislated, this measure will be effective from 1 January, 1 April, 1 July or 1 October following the day the enabling legislation receives Royal Assent.

For more information on downsizer contributions, please refer to this technical article.

Update on previously announced superannuation and SMSF related measures

In recent Federal Budgets, there have been a number of announcements relating to superannuation. The Government took the opportunity in the October Federal Budget to provide clarity on the progress of certain unlegislated proposals.

SMSF audit requirement from annual to three-yearly no longer going ahead

In the 2018-19 Federal Budget the previous Government had proposed that from 1 July 2019, the annual audit requirement will be changed to a three-yearly requirement for SMSFs with a history of good record-keeping and compliance. This measure was proposed at the time to reduce red tape for SMSF trustees that have a history of three consecutive years of clear audit reports and that have lodged the fund's annual returns in a timely manner.

The Government has confirmed that this measure will not go ahead.

Delay to the commencement date for SMSF residency changes

In the 2021-22 Federal Budget the previous Government had proposed to allow the relaxation of residency requirements for SMSFs and Small APRA Funds (SAFs) by extending the central management and control test safe harbour rule from two to five years for SMSFs, and removing the active member test for both SMSFs and SAFs. It was expected for this measure to take effect from 1 July 2022.

The Government has reaffirmed its support for this measure with the effective date to be delayed to the income year commencing on or after the date of Royal Assent of the enabling legislation.

No update on two-year amnesty relating to commutation of certain legacy pensions

In the 2021-22 Federal Budget the previous Government had proposed a two-year amnesty allowing retirees in receipt of legacy retirement products such as market-linked, life-expectancy and lifetime pensions to have the option to exit these products over a two-year period commencing from the beginning of the first financial year after Royal Assent.

There have been no further updates on this announcement.

Superannuation Guarantee legislated increases to continue in accordance with original timetable

Currently, Superannuation Guarantee (SG) is 10.5%. It is legislated to increase by 0.5% at the start of each financial year from here on in until it reaches 12% on 1 July 2025. There is no change to the legislated increase of SG.

Period	General SG
1 July 2022 – 30 June 2023	10.5%
1 July 2023 – 30 June 2024	11.0%
1 July 2024 – 30 June 2025	11.5%
1 July 2025 onwards	12.0%

No extension to the halving of SIS minimums beyond the 2022-23 financial year

There was no announcement in relation to extending the halving of the SIS minimums beyond the 2022-23 financial year in relation to eligible income streams such as account-based pensions and market linked pensions.

Tax

Stage 3 tax cuts to proceed

Despite the ongoing debate about deferring or cancelling the stage 3 tax cuts, the measure will go ahead in accordance with the legislated timetable from 1 July 2024. The stage 3 tax cuts that were introduced as part of the previous Government's personal income tax reform, will remove the 37% income band and increase the higher threshold in the 45% income band from $180,000 to $200,000. The applicable rate on the 32.5% income band will also reduce to 30%.

Resident tax rates and threshold

Current		From 1 July 2024	
Taxable income	Tax payable	Taxable income	Tax payable
$0 - $18,200	Nil	$0 - $18,200	Nil
$18,201 - $45,000	19%	$18,201 - $45,000	19%
$45,001 - $120,000	$5,092 + 32.5%	$45,001 - **$200,000**	$5,092 + **30%**
$120,001 - $180,000	$29,467 + 37%	**Income band removed**	
$180,001+	$51,667 + 45%	**$200,001+**	$51,592 + 45%

Social Security measures

Freezing deeming rates until 2024

The Government recommitted to freezing the current deeming rates until 30 June 2024. The deeming thresholds will continue to be indexed on 1 July each year. The current deeming rates and thresholds are as follows:

	Threshold	Lower deeming rate	Upper deeming rate
Single	$56,400	0.25%	2.25%
Couple	$93,600	0.25%	2.25%

Home sale proceeds exemption

The Government recommitted to extending the exemption period for proceeds from selling the principal home to purchase or build another home. Specifically,

- the assets test exemption for principal home sale proceeds will be extended from 12 months to 24 months. In certain circumstances, such as experiencing delays beyond a person's control, the exemption can be extended to 36 months, and
- the income test will be amended to treat the principal home sale proceeds as a separate pool to the individual's or couple's other financial assets for the purpose of calculating deemed income. Only the lower deeming rate (currently 0.25%) will be applied to these proceeds for the duration of the assets test exemption.

The changes are scheduled to commence from the later of 1 January 2023, or one month after the enabling legislation receives Royal Assent.

Enabling legislation *(Social Services and Other Legislation Amendment (Incentivising Pensioners to Downsize) Bill 2022)* was introduced on the 7 September 2022 and is currently before the Senate.

Temporary increase to pensioner Work Bonus income bank

The Government is providing an immediate one-off increase to an eligible pensioner's Work Bonus income bank of $4,000 during 2022-23. This will increase the maximum unused income bank to $11,800 from $7,800 and allow pensioners to work more hours without affecting their pension.

These changes will not affect the existing application of the $300 fortnightly Work Bonus. Instead, the changes will provide an immediate $4,000 increase to the income bank of all eligible pensioners. This will allow eligible pensioners to have an extra $4,000 of income from work immediately disregarded from the income test, rather than having to accumulate a balance over time.

Enabling legislation *(Social Services and Other Legislation Amendment (Workforce Incentive) Bill 2022)* was introduced on the 28 September 2022 and is currently before the House of Representatives.

The above Bill also contains provisions to enable Age Pensioners and certain DVA pensioners to have their pension suspended for up to two years instead of being cancelled under the income test, where the pensioner's assessable income includes income from work. These pensioners will be able to retain their Pensioner Concession Card for up to two years and only be required to update their details, including their income and assets information, to have their payment reinstated instead of lodging a new claim.

Changes to Commonwealth Seniors Health Card income thresholds

The Government recommitted to increasing the income thresholds for the Commonwealth Seniors Health Card from $61,284 to $90,000 for singles, from $98,054 to $144,000 for couples and from $122,568 to $180,000 for couples separated by illness, respite care, or prison. This measure will start 7 days after legislation is passed and receives Royal Assent.

The Social Services and Other Legislation Amendment (Lifting the Income Limit for the Commonwealth Seniors Health Card) Bill 2022 was introduced into Parliament on 27 July 2022 and is currently before the House of Representatives.

Based upon questions received from advisers, Challenger Tech has published the following articles which may be useful in addressing questions from clients around the Commonwealth Seniors Health Card:

- Guide to the Commonwealth Seniors Health Card.
- How much are the Centrelink concession cards worth?
- Is your retiree client eligible for a Centrelink concession cards?

Pension Supplement to continue for permanent departures overseas and temporary absences

The previous Government had proposed changes as part of the 2016–17 MYEFO to the Pension Supplement for permanent departures overseas and temporary absences. Broadly, this measure would have stopped payment of the Pension Supplement to recipients who permanently reside overseas or who have been absent from Australia on a temporary basis for six weeks or longer, recognising that the intent of the Pension Supplement is to assist with specific cost of living pressures for pensioners living in Australia.

This proposed measure had not been legislated. The Government announced that they will not proceed with this measure.

Increasing the Totally and Permanently Incapacitated Payment for Veterans

The Government announced that it will increase the Special Rate of Disability Compensation Payment, Temporary Special Rate Payment, and the Special Rate Disability Pension by $1,000 per year from 1 January 2023.

Eligible veterans will receive an increase to their fortnightly payment of $38.46 per fortnight. From 1 January 2023 the Special Rate will be $1,617.16 (including the Energy Supplement) per fortnight.

A plan for cheaper medicines

The Government will provide funding to decrease the general patient co-payment for treatments on the Pharmaceutical Benefits Scheme (PBS) from $42.50 to $30.00 from 1 January 2023. The existing Medicare Safety Net provisions and all prescriptions that currently count towards a patient's Safety Net will continue to do so.

Changes are also being made to ensure Closing the Gap patients will not need to pay any more to reach their Safety Net. A script with a Commonwealth price at or above the co-payment amount will have the script count toward the PBS Safety Net at a fixed value of $42.50, rather than at the reduced $30.00 co-payment. This will remain until the general patient co-payment is more than $42.50 in the future through indexation.

Aged care

Fixing the aged care crisis

The Government will provide additional funding over four years from 2022-23 to reform the aged care system:

- $2.5 billion over four years from 2022-23 to improve the quality of care in residential aged care facilities
  - requiring all facilities to have a registered nurse onsite 24 hours per day, seven days a week from 1 July 2023; and
  - increasing care minutes to 215 minutes (including 44 nursing minutes) per resident per day from 1 October 2024.
- $23.2 million over four years from 2022–23 to improve aged care infrastructure and services that provide additional support to older First Nations peoples, and older Australians from diverse communities and regional areas.
- $9.9 million over two years from 2022–23 to establish the Aged Care Complaints Commissioner within the Aged Care Quality and Safety Commission from December 2022.
- $8.2 million over four years from 2022–23 to increase financial transparency through the introduction of new financial reporting requirements for residential aged care providers.
- $5.0 million over three years from 2022–23 to the Maggie Beer Foundation to support the sector in providing better food for residential aged care and home care recipients.
- $3.6 million in 2022–23 to establish a national registration scheme and code of conduct for personal care workers in the aged care sector.

The Government will also:

- Improve continuity of care by requiring aged care providers to preference direct employment for their staff.
- Improve governance in the aged care sector by strengthening regulation of aged care providers, including through new civil penalties to better protect whistle blowers and ordering providers to pay compensation to care recipients where loss or damage has occurred due to neglect.
- Introduce price caps for administration and management fees and remove exit fees charged by providers in the Home Care Packages Program.

The *Aged Care Amendment (Implementing Care Reform) Bill 2022* which requires residential aged care facilities to have a registered nurse onsite 24 hours per day, seven days a week and introduces the price caps for administration and management fees and removes exit fees for home care providers was introduced into Parliament on 27 July 2022 and is currently before the Senate.

Implementing aged care reform

The Government will provide additional funding of $540.3 million over four years from 2022-23 to improve the delivery of aged care services:

- $312.6 million over four years from 2022–23 for essential aged care information and communication technologies system maintenance and enhancements, including streamlined reporting, and to enable aged care sector reform.
- $68.5 million over four years from 2022–23 to extend and expand the Regional Stewardship of the Aged Care outreach model to strengthen governance and to support the implementation of aged care reforms in regional areas.
- $53.5 million for 12 months from 1 January 2023 to extend the Disability Support for Older Australians Program to 31 December 2023.
- $43.8 million over three years from 2022–23 to expand eligibility for the Australian National Aged Care Classification Transition Fund by including the Basic Daily Fee supplement in the calculation that determines the amount of financial support for facilities.
- $38.7 million over four years from 2022–23 to establish the Inspector-General of Aged Care and the Office of the Inspector-General of Aged Care as a Statutory Agency to target systemic issues, provide independent oversight of the aged care system and make recommendations directly to the Government.
- $23.1 million in 2022–23 to support the implementation of the Support at Home Program from 1 July 2024 through conducting a large scale trial of an integrated assessment tool, the establishment of a Service List Advisory Body, commissioning the Independent Hospital and Aged Care Pricing Authority to undertake a pricing study, and to consult with the aged care sector.

The Government will also extend existing grant arrangements for the Commonwealth Home Support Programme for a further 12 months to 30 June 2024 to reflect the new start date of 1 July 2024 for the Support at Home Program.

Plan for the National Disability Insurance Scheme

The Government will provide additional funding over three years from 2022-23 to support people with disability and their families:

- $385.0 million in 2023–24 in additional funding to the National Disability Insurance Agency (NDIA) for operational funding to support National Disability Insurance Scheme (NDIS) participants.
- $21.2 million over three years from 2022–23 for NDIS Appeals providers to support people with disability and their families with the Administrative Appeals Tribunal (AAT) appeals process.
- $18.1 million over two years from 2022–23 to review NDIS design, operations and sustainability.
- $12.4 million in 2022–23 to introduce an expert review pathway to resolve disputes arising from NDIA decisions, reduce the number of appeals to the AAT, and provide better and earlier outcomes for NDIS participants.

Contact details

By phone

Challenger Tech team
1800 176 486
(during Sydney
business hours)

By email

challengertech@challenger.com.au

Website

challenger.com.au

This update is issued by Challenger Life Company Limited ABN 44 072 486 938, AFSL 234670 (Challenger) and is current as at as at 26 October 2022. It does not constitute financial product advice and is intended solely for licensed financial advisers or authorised representatives of licensed financial advisers. It must not be given to a retail client except where it is included as part of the financial adviser's own advice, provided that the financial adviser's advice does not state or imply that the advice is provided by Challenger. It is a guide only and based on Challenger's understanding of the 2022-23 Federal Budget Report and current taxation and (where relevant) social security laws. These laws may change and the proposals mentioned in the [2022-23] Federal Budget Report may not become law.

In preparing this update, Challenger relied on publicly available information and sources believed to be reliable, however, the information has not been independently verified by Challenger. While due care and attention has been exercised in the preparation of this information, Challenger gives no representation or warranty (express or implied) as to its accuracy, completeness or reliability. The information presented in this update is not intended to be a complete statement or summary of the matters to which reference is made in this update.

To the maximum extent permissible under law, neither Challenger nor its related entities, nor any of their directors, employees or agents, accept any liability for any loss or damage in connection with the use of or reliance on all or part of, or any omission inadequacy or inaccuracy in, the information in this update.

Neither Challenger, nor any of its officers or employees, are a registered tax agent or a registered tax (financial) adviser under the *Tax Agent Services Act 2009* (Cth) and none of them is licensed or authorised to provide tax or social security advice. Challenger is not an authorised deposit-taking institution for the purpose of the *Banking Act 1959* (Cth), and its obligations do not represent deposits or liabilities of an authorised deposit-taking institution in the Challenger Group (**Challenger ADI**) and no Challenger ADI provides a guarantee or otherwise provides assurance in respect of the obligations of Challenger. **Accordingly, unless specified otherwise, the performance, the repayment of capital and any particular rate of return on your investments are not guaranteed by any Challenger ADI.**