Advice Technical Podcast - 8 May 2025 – Transcript.

Bryan Ashenden (BA)

I'd like to begin this techno podcast by acknowledging the traditional owners of the land on which we are recording today, the Gadigal people of the Eora nation here in Sydney and pay my respects to elders past, present and emerging.

Well, a week is a long time in politics, said the former Prime Minister of the United Kingdom, Harold Wilson. Well, it would seem like the same adage actually applies here in Australia, given the somewhat unexpected election result we've just experienced. Perhaps not that Labor was re-elected, as many of the polls leading up to the election were showing. That was a high possibility, but maybe the extent of the majority Labor now holds and the significant reduction in seats held by the Coalition.

Hello and welcome to today's TechKnow, a podcast series brought to you by BT Technical Services. My name is Bryan Ashenden and I have the pleasure of leading the BT Technical Services team, a group of professionals dedicated to helping you as advisers work through strategy options for your clients. Now, in today's podcast, I'm joined by one of my colleagues, Matt Manning from the BT Technical Services team, and we'll spend our time talking through what the outcome of the 2025 Federal Election means in the financial advice space. Matt, welcome to today's TechKnow podcast.

Matt Manning (MM)

Thanks very much, Bryan.

BA

Right, Matt. If I think back to our first TechKnow podcast of the year, I actually asked different people on the team for their predictions on who they thought would win the election, even though it was yet to be called. Now from memory, I think you're possibly the only one who predicted that there would actually be a Labor victory. Perhaps not by as much as of what we've actually seen. But can you talk us through what we know of the election results so far, both in the House of Representatives and in the Senate?

MM

Yeah. Well, I mean, with the previous prediction, I did predict the minority Labor government. So to an extent I was right, but yes, I must admit I'm absolutely shocked at the extent of the Labor victory. Now, for better or for worse, that does, if anything, from a legislative and advice perspective make things a lot clearer. So it's very, very definitive that Labor are going to have a clear majority in the lower house, the House of Representatives. So it's not really going to matter as we've seen before, if one or two of their MPs go a bit ragged, start voting against the government. They've got a very, very clear majority. The Senate they'll still be counting that for weeks, if not months. From the initial numbers that I've done, I think it's highly likely that they'll be able to control the Senate with just the support of the Greens, which is a lot clearer than before - having to negotiate with so many other Independents and minority parties. Legislation I would almost certainly say is going to get through with the support of Labor and the Greens.

BA

Right. Well, that certainly is, I think going to make it a very interesting agenda going forward and as to what the government is actually able to implement. So let's start with perhaps the topic that's most on the minds of many advisers and its potential future. And that's around this Division 296 tax, which never made it through the Senate for the previous Parliament as it's as it sat. So where do things stand now, do you think about the Division 296 tax coming in?

MM

Yeah. So I mean as you've alluded, the previous bill lapsed. It's still up on the Parliament House website as a result of not just the Labor victory but the size of it and the fact that they likely can govern only with the support of the Greens. I would say that that's very likely to be reintroduced. Now if you look at some comments of what the Greens have said before in relation to this, there was even some talk for their support that $3 million threshold would be reduced to $2 million , or they'll exchange that for banning limited recourse borrowing arrangements. But regardless of the detail, the thresholds, etc, I would be pretty confident that given the composition of Parliament and the size of the victory that during this term Division 296 will be reintroduced, so that does create some advice opportunities for people that are going to be hit with that tax, which is broadly the additional 15% tax on earnings on super balances of more than $3 million. And unlike the other taxes and the changes, proposed Division 296 also relates to effectively unrealised gains because it's assessed on the increase of the total super balance rather than taxable income, which has been what's traditionally being taxed both inside and outside super.

BA

Yeah. So I think that last point is a really interesting one because when we look at the Division 296 Bill as it was in the Parliament before, obviously got through the lower house and it was in the Senate and because of the composition of the Senate, the government needed the support of some independents to get it through. And I don't think any of the independents were opposed to the tax as such, but their main opposition was actually around the calculation methodology. And that's that taxing of unrealised gains. Not to put you on the spot here, Matt, but putting you on the spot, what's your expectation on what might happen on that side of things now? Do you think the government will still try and push it through as it is, or do you think maybe they'll take into account potentially some changes around the calculation methodology?

MM

I think some details will change, but largely they'll push it through, including that main issue of the unrealised gains. They might change something like the indexation of the threshold, for example. But we've seen some other examples internationally of as I've probably said during the BT Academy webinar session that I delivered on this topic that's still available on BT Academy. It's not just a new tax, but a whole new way of taxing with that unrealised gains. So I suspect that that's they're going to stick with that with the current composition of Parliament and not and not look to change it. Now the other option - they could essentially go back to the drawing board and completely redo it, but to tax traditional income rather than the unrealised gains, they'd be going away from the system of using the adjusted total super balance to make the determination, so effectively that would mean they'll be going right back to the drawing board. So for what it's worth, my money is pushing through what they have with a few, perhaps minor adjustments, rather than going back to the drawing board.

BA

And what about a start date? So originally it was talked about starting from 1 July 2025. Do you think that's still a possibility or might they push it out?

MM

Well, I suppose if they're going to do that by 1 July 2025, they'd really better get their skates on. I mean, notwithstanding, it's actually in their within their power to make it retrospective. But especially considering the amount of time that the original bill sat in the Senate, yes, it could well be that it's still going ahead. But they announced that the new start is 1 July 2026 rather than 1 July 2025.

BA

Yeah. So I think that will probably be an interesting one. We know when they first announced it there, there was talk about they want to have the legislation passed to give advisers and their clients plenty of time to understand it and perhaps there's certain steps that they could take to reduce the potential impact, to give them an opportunity to do that and obviously if they have a 1 July 2025 start date, that time is pretty minimal, even though the tax doesn't get calculated until after July of 2026. So I guess it's one of those things that we'll keep a watch on and see what happens.

MM
Yeah, that's quite interesting, and it's the sort of thing that's definitely still wait and see, but to an extent, a lot of the strategies that we could be looking at are variations of existing strategies. So probably the most simple example of that with the existing transfer balance cap. Let's just say it's next financial year, so the general transfer balance cap is $2 million. If someone retires with say, $2.2 million in super, a main residence and not much else, rather than subject that additional $200,000 to the 15% tax on earnings and accumulation phase as it currently stands, you tend to withdraw that. Now, that principle is also going to apply as to whether that effective tax rate of, essentially 30% on that more than $3,000,000 inside super is going to be more or less than what it would be outside. Of course the difference being is that when you start running projections in your transfer balance cap scenario, it's reasonably easy to do because you can compare apples with apples with the same earnings rate, but with the Division 296 and the unrealised gains, that's much harder, because you'd also essentially have to predict the timing and the amount of unrealised and realised gains to do that sort of comparison.

BA
OK. Right, well let's leave Division 296 to the side at the moment and see what the government actually comes out and does in this space. What about some of the other measures that were announced, whether it was in this year's Federal Budget or in the lead up to the election. One of the big ones the Labor Party talked about during the whole election process was the reduction in HECS and similar sorts of debts coming through. Can you talk to us briefly about what those changes are and when those sorts of things are expected to take effect?

MM
Yeah. So I guess is a quick summary of what's already happened. HECS debt traditionally has been indexed to CPI and then we had that year with really big CPI and huge indexation. So one of the changes that's already been legislated is indexing the HECS debt to the lesser of CPI and essentially a function of wages, and also to change the tiers to make the repayments for most less as we have income tiers, and of course having less income tiers than there were before. So they have simplified the tiers and also delayed the repayment for many, as well as a more generous indexation rate in times where we have higher inflation. That is legislated. What they've taken to the legislation to propose is quite simply to waive 20% of the HECS debt. So basically, if that were to become law and the Greens support that, in fact they support 100% reduction from what I've read to HECS debts. But if that policy were to get through, then yes, everybody's HECS debt will reduce by 20%.

BA
OK. And one of the elements I talked about from a tax perspective was the small business instant asset write off, which might be relevant for clients or maybe even with some advisers within their businesses. What did they talk about in that space?

MM
Well, I mean, that's been temporarily extended quite a few times now and it looks like that will also be temporarily extended for another 12 months, ie into the 25/26 financial year as well.

BA
So that's that $20,000... if you buy that asset, have it ready to be installed before the 30 June 2026, you would get another $20,000 instantly written off. So again, we'll have to wait to see the legislative change to actually give effect to that, but that's for another financial year so they've probably got time for that. One other one, just to briefly touch on at the moment was a long standing announcement that we actually finally saw some movement on in December last year, which was about that ability to unwind legacy complying pensions. Now a lot of the focus for that has been on self managed superannuation funds because that's where we see a lot of the lifetime and life expectancy complying pensions. But it does also, I think it's important to note, it does also apply to market linked income streams or perhaps what some people still refer to as the old term allocated pension that you might find in public offer funds. But there are still some potential issues from what I've heard from a Centrelink perspective. Can you just give us a a quick overview of what that is?

MM
Yeah. So I think this was actually an honest oversight. Without meaning to rain on some good news because yep, it was good. Those old style income streams that people are locked into that they started either due to the social security asset test exemption, or 50% exemption in some cases or way back in the RBL days that no longer suit the clients' needs that they simply want to get out of, but they're so inflexible. The good news is the legislation passed to allow those to be rolled to a flexible product, ie account based pension. There's probably still three things that are worth considering though. The first one is, as with any change, does the trustee, product provider, etc permit. The other one is that the way the transfer balance cap calculation works for those that are at, or close to the transfer balance cap. When we're moving such a complying product, the credit event and debit event don't necessarily offset each other like they do with an account based pension. So that's something to watch for. And the other one which comes back to the oversight is that they changed the super and the tax rules, but not the social security rules. So technically somebody who would be currently rolling over those complying products could end up with a social security debt and backdated for that income stream not being complying. Now the good news with that - to fix that third problem is that there is an instrument that's ready to go. We just don't know exactly when that will pass because we don't know the sitting days. But I suspect that would be very uncontroversial. That would just be tabled to go through, probably not even reported in the media. And then from there will be absolutely 100%, notwithstanding the two potential issues I mentioned before that somebody won't be disadvantaged from a Centrelink point of view retrospectively by relieving themselves of those sort of restrictive income streams, including your lifetime pensions and your term allocated pensions.

BA
Yeah. So some positive news there, at least coming out of that change. So obviously if you've got clients that have got them from a Centrelink perspective. Just be aware that yes, we're waiting for this instrument to take full effect, which we got to wait for 15 sitting days of Parliament and yeah, we don't know what the first 15 sitting days of Parliament will be, but we'd expect that would go through without any disallowance motion moved and that Centrelink debt will be waived.

Well, thanks, Matt. We might just pause now to take a short break, but before we do that, why not think about registering for our next BT Academy Webinar. Now, these are held every second Wednesday at midday Australia and Eastern Standard Time and our next webinar is scheduled for Wednesday 21 May and it will follow a similar theme to today's podcast, but from an economic perspective. Mantas Vanagas, an associate director within Westpac economics, will present to us on the topic of Australia and other major economies before and after tariffs, so in our economic update, Mantas will explore how Australia and other major economies looked before the tariff shock and share some views on how they are likely to perform going forward. And no doubt that will incorporate some expectations now that we have had the federal election held here in Australia. To register, head to www.bt.com.au/professional and follow the link to the BT Academy events and webinars page where you can register for that session. OK, well, don't go anywhere. We'll be right back in less than a minute.

BA
All right. Well, welcome back. Matt, let's just continue the discussion about what the future advice agenda might look like as a result of the 2025 Federal Election. What else do you think we might be able to see coming through in this space?

MM
There's been a range of things that have been announced throughout the election campaign. Apart from the ones that we've already spoken about, they've announced an extension to the energy rebates for another six months and also various housing measures. So probably the two main ones of those that the government have promised to deliver 100,000 homes solely for first home buyers, and that's expected to cost $10 billion. So if we divide those two, that's $100,000 cost per home. So the government has said that that will open up to first home buyers because in banning non first home buyers we won't have property investors competing. So the aim there is to increase the supply solely for first home buyers. They've also announced on the housing front that they're going to expand access to the 5% deposit in order to purchase a home. So that's an existing scheme, which is essentially the home guarantee scheme, which for certain demographics also operates under a different name. They've basically announced that

they're not going to cap the number of places for that or means test. So if they were to follow through with that and if there's the housing stock to do so, they would essentially have more people that are able to buy a house with a deposit as low as 5%. Now that's a summary of what's been announced, probably more on the speculative side. But as we saw before last election with the no changes to super, we got Division 296, no changes to the Stage 3 tax cuts we had changes to those, and various others. Often after the election, things can change. So we've already got negative gearing being modelled by Treasury. And potentially in the vein of the Division 296 with the tax on unrealised gains, they could well look to apply that because obviously so much of the spending is increasingly baked in and there's only so much you can print and tax. It certainly wouldn't surprise me as well as Division 296 that they look for not just different methods of taxing and changing rates, but different ways of taxing as well to what we're traditionally used to based on realised gains and and earned income.

BA
Yeah. So, Matt, I'm not going to hold you to any of those predictions about the rumours and so on, because clearly we don't know exactly what is going to happen, but I think it's always interesting when you look at that new construct of Parliament, when you've got a government that's got a majority in the lower house and pretty much can count on the support of the Greens to get things through the Senate that, you know, they can almost think about what are the things that they want to do without having to worry about so much about whether they can pass that legislation through. One of the other ones that people have talked about it - maybe it's because of the intergenerational wealth transfer side of things - but people have talked about will there be some form of inheritance tax? Any thoughts on that one?

MM
Absolutely fascinating. And the Greens have spoken about that for some time. And that's where for again for, for better or worse, they've been very effective, essentially exchanging their support on certain issues for the government of the day adopting some of their policies. Now I guess I'd probably start by pointing out we essentially do already have a couple of quasi inheritance taxes because the CGT system on a post 85 asset takes us all the way back to the original cost base and of course we've got superannuation, death benefits, taxed and non dependents. The other thing with I guess the inheritance tax is you'd also have to complement it with a gifting tax. Otherwise essentially it would be very easy just to do a deathbed conversion and just basically give away all your assets before you pass away. Certainly, yeah, it could well be on the cards. It was previously be seen as sacred in politics not to touch inheritance. That could well be opened up. As far as the likelihood, I think they'd be probably more likely from, especially from a housing angle, to look at the other main sacred topics around superannuation and even the tax on the main residence because once we start to look at where is the revenue leakage from exemptions and concessions, really the vast majority of those relate to main residence and superannuation. So if they are going to make a meaningful further increase to their revenue, they'll have to target those two previously untouchable areas.

BA
OK. Thanks, Matt. Well, the other thing that's obviously on the agenda for many advisers wanting to know what the future is going to hold is around the Delivering Better Financial Outcomes package. Now we have obviously seen the first tranche of that

passed last year, particularly around the fee consents which took effect in the beginning of January 2025 and we did see some draft legislation released for consultation just a couple of weeks before the election. That consultation has closed, but it doesn't mean things are going any further at this point in time. The first thing advisers need to be aware of is we are still waiting at the moment to find out who the new responsible minister is going to be with Stephen Jones having retired at the last election. The government at the time that we're recording this podcast haven't announced who the new responsible Minister for Financial Services and Superannuation and so on is going to be, so we'll need to wait and see who that is and whether they still continue with the same policy positions that Stephen Jones had been pushing through, or whether there might be changes that come through.

And again, if we talk about the context of what the Federal Parliament now looks like, the government certainly has probably got a much easier path to push its changes through that it wants to see without necessarily as much negotiation as they have had to do in the past. This doesn't mean that they won't consult on measures that have been released, and I think that's important. We certainly saw that with the first tranche that there were some issues that have arisen and some that still exist today and as a result of that legislation, so consultation is important to try and make sure implementation is done in the most effective way, but we will need to wait and see what that looks like. So please stay tuned for future podcasts and I'm sure we'll cover that topic in more detail once more information gets released. Well, Matt, thanks for joining us for today's podcast. I think it's been a good discussion on what the future might actually look like.

MM
Thanks very much, Bryan.

BA
No worries and please remember that if you have any technical questions, if you're a BT Panorama registered adviser, you can contact our Technical Services team so you can reach Matt and other members of the team. Simply go to the BT Panorama app on your mobile and if you go to the Contact us section, you'll be able to initiate a call with the Tech team or you can send them an email to technical@btfinancialgroup.com and as I said earlier, please think about registering for our upcoming BT Academy webinars. The next one is that economic update with Mantas Vanagas from Westpac Economics on 21 May. Well thanks for joining us today and until next time bye for now.