2018 Federal Budget Summary

The 2018 budget proposes some broad changes that will not require or promote specific action in most circumstances.

It was encouraging to see the Government delivering improvements to the bottom line and maintaining a prudent balance between the reduction of national debt and fiscal stimulus.

The staggered reduction of personal income tax rates will have only a limited impact for households, and this can be viewed as an attempt to win favour with the low and middle class voting population for the next election.

Senior Australians have a few wins with regard to an extended Pension Loan Scheme and increased provision of 14,000 Home Care Packages in the high care level.

Further investment in key national infrastructure will be supported by revenue increases from tobacco tax, and better monitoring and capture of revenue from illegal tobacco activities.

Specific proposals are set out below.

Superannuation

Work Test Exemption – applicable to recently retired aged 65-74

From 1 July 2019, people aged between 65-74 with super balances of under $300k will be able to make additional concessional and non-concessional contributions without the need to satisfy the work test.

This exemption is available for one financial year following the year in which the work test was last satisfied.

This opportunity will be helpful where individuals have not been able to accumulate more than $300k in their super, and have the available cash funds to complete this top up.

Opt-in for insurances in superannuation

This proposal, effective from 1 July 2019, allows individuals to change to an opt-in basis for their insurance cover, if:

1. They are under 25
2. They have low balances under $6,000
3. Their account has not received a contribution in 13 months, and is inactive.

Members will be given 14 months to decide whether they retain cover in super or allow it to lapse. Younger members and smaller balances will be protected from insurance premiums eroding the balance of their accounts. This could, however, magnify the under-insurance issue in Australia.

Capping fees, banning exit fees, consolidating inactive accounts

Effective 1 July 2019, the proposal introduces a 3% annual cap on passive fees charged by superannuation funds on accounts with balances below $6000 and will ban exit fees on all superannuation accounts. The budget also proposes that all inactive superannuation accounts with balances below $6000 be transferred to the ATO. The ATO will then use data matching to proactively reunite these inactive accounts with a member's active account, where possible.
Any measure that protects low balance accounts and seeks to amalgamate an individual's total superannuation is a welcome initiative.

Opt out of Super Guarantee for high-income earners

In situations where a high income earner generates their earnings from a number of sources, the super guarantee obligations will mean that the individual breaches their concessional contribution limits.

This proposal, effective from 1 July 2018, allows individuals to direct certain employers to not pay any super guarantee. In order to access this the individual must:

1) Earn more than $263k, and
2) Have multiple employers.

Self-Managed Superannuation Funds

Currently, self-managed super funds can have up to four members. The budget proposal increases this to a maximum of six members. This provision will allow greater flexibility to include more family members sharing one super fund; however, in reality, the application of this may be limited.

Further to this, there is a proposal for funds with a clean audit history will be able to reduce their compliance to a three-yearly audit. The audit fee is not a large expense of operating a self-managed fund, however this provision will lessen the overall cost of running a fund.

Notice of Intent to Claim

The ATO is planning to tighten up the compliance around this provision. This is applicable when an individual makes a personal contribution to superannuation and intends to claim a deduction at a personal level.

The increased focus in this area is to collect contributions tax where the individual has not informed the fund of their intent to claim. No change to the actual provision or process.

Retirement Income Options

While there is no specific timeframe on this concept, there is a push towards super funds having to provide members an option for a lifetime income stream or Comprehensive Income Products for Retirement (CIPR). This will only be one of multiple options; however, the proposal is that lifetime options will need to be available, in much the same way the My Super reforms introduced a simple and comparable product to retail super funds.

Personal Income Tax

Tax Rates

Over a three-step process and a period of seven years, the budget proposes the following changes to personal tax:

Step 1

Provide a new 'Low and Middle Income Tax Offset' (LMITO) to provide tax relief of up to $530 per year to low and middle income earners for the 2018-19, 2019-20, 2020-21 and 2021-22 tax years.

This benefit is in addition to the existing Low Income Tax Offset (LITO) of $445. The savings realised through these offsets will be received following lodgement and assessment of the individual's tax return.

Neither LITO nor the proposed LMITO are refundable offsets, so they can reduce tax liability to nil but not reduce liability to Medicare levy.

Step 2

From 1 July 2018, the Government proposes to increase the upper threshold of the 32.5% marginal tax rate from $87,000 to $90,000. From 1 July 2022, the top threshold of the 19% marginal tax rate will increase from $37,000 to $41,000, and LITO will increase from $445 to $645.

Also, from 1 July 2022, the top threshold of the 32.5% marginal tax rate will increase from $90,000 to $120,000.

Step 3

From 1 July 2024, the Government proposes to increase the upper threshold of the 32.5% marginal tax rate from $120,000 to $200,000, removing the 37% tax bracket completely. As such, the top marginal tax rate of 45% will commence from $200,000.

Indicative tax cuts provided in the Budget papers for an individual in 2018-19, compared to 2017-18, are as follows:

Reduction in tax paid – individuals

Taxable income	Tax reduction
$35,000	$200
$45,000	$440
$60,000	$530
$85,000	$530
$90,000	$665
$100,000	$515
$120,000	$215
$130,000+	$135

Medicare levy

No change to the Medicare levy — it will remain at 2%.

Minor Tax relating to distributions from Testamentary trusts

Testamentary trusts are the only available entity that allows a minor to access the adult tax rates for passive income. To ensure that no additional advantage is captured via this preferential treatment, the Government is planning to change tax law to clarify that minors will be taxed at adult marginal tax rates only in respect of income a testamentary trust generates from assets of the deceased estate (or the proceeds of the disposal or investment of these assets).

Deny deductions for vacant land

Effective 1 July 2019, expenses associated with holding vacant land will no longer be tax deductible. This measure is to ensure no deductions are claimed for vacant land that is not genuinely held for the purpose of earning assessable income.

Small Business Concessions

Small businesses with aggregate turnover of less than $10m will continue to have the benefit of instant $20k depreciation write offs for eligible purchases for a further 12 months to June 2019.

Social Security

Pooled lifetime income streams

New means testing will capture lifetime annuities and deferred lifetime annuities in the following format:

- 60% of payments will be classified as income.
- 60% of purchase price will be assessed as an asset until age 84, or a minimum of five years and then reduced assessment to 30%.

Effective from 1 July 2019, any pooled lifetime income stream purchase before this date will be grandfathered.

Extended pension bonus scheme

The pension bonus scheme rewards age pensioners who are also working by not assessing the first $250 per fortnight for the income test. Effective from July 2019, it is proposed to increase the threshold to $300 per fortnight, and have the definition broadened to incorporate both employed and self-employed income sources.

Extended pension loans scheme

The pension loans scheme has previously allowed part-pensioners to borrow an amount each fortnight that brings them up to the full aged pension. Previously this scheme has only been available to either part-pensioners or those who failed to receive the pension on either the income or asset test.

This proposal makes the scheme available to all at a payment rate of 150% of the full aged pension. In this scenario even a self-funded retiree can access this scheme and accrue a debt to the government over time. Full aged pension recipients would have access to a further 50% of their payment.

This will provide a viable alternative to reverse mortgages at more competitive interest rates.

Access to Aged Care at home

Currently there is increasing pressure on Home Care packages, with many people assessed as being eligible for care packages but yet to receive the funding after some delay. Commentators have confirmed there are currently 105,000 people in this scenario.

The proposal is to increase the high level Home Care Packages by 14,000 over a period of four years.

If you have any questions about our 2018 Federal Budget Summary please do not hesitate to contact your SentinelWealth adviser on 02 8908 5300.