2018/19 Federal Budget

May 8, 2018

Contents

Overview

Much of the discussion in the lead-up to May 8's federal Budget focused on the likelihood of personal tax cuts. In his third Budget, Treasurer Scott Morrison didn't disappoint, unveiling a new temporary tax offset and significant long-term movements in the marginal tax rates. Coupled with the cancellation of the planned Medicare levy increase, these changes will see clients keep more of their taxable income in their pocket in future tax years.

Superannuation didn't feel the glare of the spotlight as strongly as it has in previous Budgets. That said, a collection of smaller changes will still provide opportunities for clients, particularly those with Self Managed Super Funds. Clients with small superannuation accounts should see their balances better protected although they will need to be proactive in order to keep any insurance they hold in their super fund.

A handful of minor changes to social security, estate planning and aged care were also announced. Each will affect a small section of financial planning clients, some in significant ways.

The make-up of the current parliament, particularly the Senate, means that some Budget proposals may not make it into law. Reflecting on last year's Budget, 8 of the 14 proposals wealthdigital tracked as being relevant to financial planning have received royal assent. Of the remaining 6, one has been dropped, one stalled in the Senate, one has yet to be legislated and the remaining 3 are currently before the parliament.

The proposals announced in the 2018/19 federal Budget are, on the whole, good news for financial planners and clients. They present opportunities to utilise a bit of extra cash-flow to help clients achieve their goals.

Taxation

Creation of the Low and Middle Income Tax Offset (LaMITO) and MTR movement

Effective date: July 1, 2018

A new tax offset, the Low and Middle Income Tax Offset (LaMITO), is proposed to be introduced for a period of four financial years starting in 2018/19. A client's LaMITO will be based on their taxable income as shown in the table below.

Taxable income	Low and Middle Income Tax Offset
Up to $37,000	$200
$37,001 to $48,000	$200 plus 3c for every dollar above $37,000
$48,000 to $90,000	$530
$90,001 to $125,333	$530 minus 1.5c for every dollar above $90,000
$125,334 and above	Nil

In 2018/19, the upper threshold of the 32.5 per cent tax bracket is also proposed to be increased from $87,000 to $90,000.

Current marginal tax rates		2018/19 to 2021/22	
Taxable income	Tax payable	Taxable Income	Tax payable
$18,200 or less	Nil	$18,200 or less	Nil
$18,201 - $37,000	Nil + 19% for each dollar over $18,200	$18,201 - $37,000	Nil + 19% for each dollar over $18,200
$37,001 - $87,000	$3,572 + 32.5% for each dollar over $37,000	$37,001 - $90,000	$3,572 + 32.5% for each dollar over $41,000
$87,001 - $180,000	$19,822 + 37% for each dollar over $87,000	$90,001 - $180,000	$20,797 + 37% for each dollar over $120,000
$180,001+	$54,232 + 45% for each dollar over $180,000	$180,001+	$54,097 + 45% for each dollar over $180,000

Implications for clients

In practice, LaMITO will start at $200, increase to a maximum of $530 then taper for those on incomes over $90,000. The table below shows the tax savings LaMITO and the movement of the 32.5 per cent tax bracket will provide.

Taxable income	LaMITO (tax saved)	MTR saving
$25,000	$200	Nil
$30,000	$200	Nil
$40,000	$290	Nil
$50,000	$530	Nil
$60,000	$530	Nil
$70,000	$530	Nil
$80,000	$530	Nil
$90,000	$530	$135
$100,000	$380	$135
$110,000	$230	$135
$120,000	$80	$135
$130,000	Nil	$135

The effective tax free threshold when LaMITO and LITO are factored in will rise from $20,540 to $21,594. Other tax offsets may further increase this number.

There are a number of ways clients can look to use this additional after-tax income. Contributing to super may be a good option for those who do not need the additional income to meet their living expenses. After tax contributions may be particularly beneficial for those who qualify for the co-contribution.

The First Home Super Saver scheme presents the opportunity for first home hunters to make additional, discretionary contributions to super, which can be later used to purchase a home. Clients with an existing home, may wish to increase their mortgage repayments. A client earning $50,000 pa who has a $200,000 loan with 20 years of repayments remaining at 4 per cent interest pa can repay their loan 13 months early, and save themselves over $5,000 in interest, if they use their tax saving to increase their mortgage repayments.

Tax from 2022/23 onwards

Effective date: July 1, 2022

LaMITO is proposed to cease at the end of the 2021/22 tax year, at which point the maximum amount of LITO is proposed to increase from $445 to $645. LITO's taper rate will be a sharper 6.5c for every dollar between $37,000 and $41,000 with the current taper rate of 1.5c applied for every dollar after $41,000 until it reaches zero at $66,667.

At the same time, the 19 per cent and 32.5 per cent tax brackets' upper thresholds are proposed to increase to $41,000 and $120,000 respectively.

2018/19		2022/23	
Taxable Income	**Tax payable**	**Taxable Income**	**Tax payable**
$18,200 or less	Nil	$18,200 or less	Nil
$18,201 - $37,000	Nil + 19% for each dollar over $18,200	$18,201 - $41,000	Nil + 19% for each dollar over $18,200
$37,001 - $90,000	$3,572 + 32.5% for each dollar over $41,000	$41,001 - $120,000	$4,332 + 32.5% for each dollar over $41,000
$90,001 - $180,000	$20,797 + 37% for each dollar over $120,000	$120,001 - $180,000	$30,007 + 37% for each dollar over $120,000
$180,001+	$54,097 + 45% for each dollar over $180,000	$180,001+	$52,207 + 45% for each dollar over $180,000

In 2024/25, the 37 per cent tax bracket is proposed to be abolished and the top tax bracket will be for those earning over $200,000.

	2022/23 and 2023/24		2024/25
Taxable income	Tax payable	Taxable Income	Tax payable
$18,200 or less	Nil	$18,200 or less	Nil
$18,201 - $41,000	Nil + 19% for each dollar over $18,200	$18,201 - $41,000	Nil + 19% for each dollar over $18,200
$41,001 - $120,000	$4,332 + 32.5% for each dollar over $41,000	$41,001 - $200,000	$4,332 + 32.5% for each dollar over $41,000
$120,000 - $180,000	$30,007 + 37% for each dollar over $120,000	Abolished	
$180,001+	$52,207 + 45% for each dollar over $180,000	$200,001+	$56,007+ 45% for each dollar over $200,000

Implications for clients

The tax savings clients' will enjoy as a result of the 2022/23 and 2024/25 changes are summarised in the table below.

Work tes	2022/23 saving	Further 2024/25 saving
$35,000	Nil	Nil
$40,000	$300	Nil
$50,000	$145	Nil
$60,000	$95	Nil
$70,000	$10	Nil
$80,000	$10	Nil
$90,000	$10	Nil
$100,000	$1,810	Nil
$120,000	$1,890	Nil
$140,000	$1,890	$900
$160,000	$1,890	$1,800
$180,000	$1,890	$2,700
$200,000	$1,890	$5,200

Change to Medicare levy thresholds

Effective date: July 1, 2017

The Medicare levy thresholds for 2017/18 were announced, they are:

2016/17		2017/18	
Taxpayer type	**No Medicare levy is payable if income is equal to or less than:**	**Taxpayer type**	**No Medicare levy is payable if income is equal to or less than:**
Single	$21,655	Single	$21,980
Family	$36,541*	Family	$37,089*
SAPTO^ recipient - single	$34,244	SAPTO^ recipient - single	$34,758
SAPTO^ recipient - family	$47,670*	SAPTO^ recipient - family	$48,385*

*Additional amount for each dependent student or child increases from $3,356 in 2016/17 to $3,406 in 2017/18

^SAPTO – Seniors' and Pensioners' Tax Offset

Implications for clients

These thresholds will need to be reflected in future client projections and calculations.

Cancellation of Medicare levy increase

Effective date: Immediately

In the 2017/18 federal Budget, the Medicare levy was proposed to increase from 2% to 2.5% from July 1, 2019. This proposed increase is now not going to proceed.

Implications for clients

Clients will need to be made aware of this as reviews are conducted.

Extending the immediate asset write-off for small business

Effective date: July 1, 2018

In the 2015-16 Budget, the ability for small businesses to immediately write off depreciating assets was temporarily increased from $1000 to $20,000. This increase was extended into the 2017/18 tax year and was due to end on June 30, 2018. It has now been proposed to be extended until June 30, 2019.

The laws that prevent small business from re-entering the simplified depreciation regime for five years if they opt out will also continue to be on hold until June 30, 2019.

A small business entity for this measure is one with aggregated turnover of less than $10 million.

Implications for clients

The extension of this provision may assist clients with small businesses to make small to medium purchases they otherwise may have struggled to fund.

Reduction in the company tax rate

Effective date: from July 1, 2023

The Budget included the government's previous commitment to reduce the tax rate for all companies to 25%.

Current law sees a stepped reduction in the tax rate for incorporated small business entities, reducing the rate to 25% in 2026/27. Incorporated small business entities are defined as those with aggregated turnover of less than $50 million from 2018/19.

The Treasury Laws Amendment (Enterprise Tax Plan No.2) Bill 2017 is currently before the Senate and extends the lower tax rate all companies from 2023/24. The lower rate in 2023/24 will be 27.5%. It then reduces the rate for all companies incrementally to 25% in 2026/27.

The government has previously had difficulty securing support from enough cross-bench Senators to pass this reform.

Implications for clients

The primary practical implication for most clients will be that franking credits will be calculated using the lower rate for all companies from 2023/24 if the proposal is passed. Wealthier clients with larger businesses may also benefit directly from the reduction in the company tax rate provided they retain profits in the business.

Costs relating to vacant land not deductible

Effective date: from July 1, 2019

The costs associated with holding vacant land that is not generating income are proposed to be denied deductions from July 1, 2019. Costs can still be an element of the cost base for capital gains tax (CGT) purposes where they would normally be so (such as borrowing expenses and council rates).

This change is likely to impact mainly residential land as commercial land will usually still qualify for deductions under the "carrying on a business" test.

Implications for clients

Clients who hold vacant land will need to be made aware that they may lose the ability to claim costs as deductions.

Superannuation

Work test flexibility

Effective date: July 1, 2019

Currently, those aged 65 to 74 are required to meet the work test in order to make voluntary contributions to super. The work test requires the client to work at least 40 hours in a 30-consecutive day period in the year of contribution.

It is proposed that 65 to 74-year old clients with superannuation balances of less than $300,000 will be allowed to make voluntary contributions to super in the first year they fail to meet the work test.

Implications for clients

Clients with low super savings who have recently turned 65 or ceased employment will have a larger window in which to make voluntary contributions to super. They will still be subject to the contribution caps and bring-forward rule.

Example

Cyril (68) has super savings of $200,000 and retires from full time work in August 2019. Under the current rules, Cyril would be able to make voluntary contributions to super in 2019/20 as he meets the work test. If he wishes to make any voluntary contributions (other than downsizer contributions) to super thereafter, he'll need to meet the work test in the year of contribution.

Under the proposed rules, Cyril could also make voluntary contributions to super in 2019/20 and 2020/21. Cyril is past the age at which he can use the bring-forward rule but the proposed change will allow him to make non-concessional contributions up to the single year cap in an extra year without needing to meet the work test again.

Increase in SMSF Membership

Effective date: July 1, 2019

The maximum number of members permitted in a Self Managed Super Fund (SMSF) or a Small APRA fund is proposed to be increased from four to six from July 1, 2019.

Implications for clients

According to the ATO's December SMSF statistics, 92.7 per cent of SMSFs have only one or two members. These statistics do not reflect a significant demand for larger SMSFs. Furthermore, more members will result in more trustees (or directors of corporate trustees) which has the potential to complicate the fund's decision-making process.

That said, the Transfer Balance Cap has placed a limit on the balance a SMSF member may hold in retirement phase. This, in turn, has reduced the ability of SMSFs to hold bulkier assets entirely in retirement phase. Increasing the membership of a SMSF, this may allow these bulkier assets to be kept in the most tax effective phase of the fund.

Three-year audit periods for SMSFs

Effective date: July 1, 2019

A three-year audit period is proposed for SMSFs with a good history of record keeping and compliance. To have the required audit period increased from one to three years the SMSF will need to have three years' worth of clean audit reports.

Implications for clients

Clients with well-run SMSFs may have the administrative burden of running the fund reduced under this proposal.

Opting out of SG for high income earners

Effective date: July 1, 2018

Clients with more than one employer and income over $263,157 are proposed to be able to opt out of receiving Superannuation Guarantee (SG) payments from certain employers.

Implications for clients

This measure would help high-income earning clients avoid having their mandated employer contributions breach their concessional contribution cap. Where a client wishes to not receive SG from an employer, they will need to ensure their salary package is not reduced.

Life insurance in super changes

Effective date: July 1, 2019

Insurance in superannuation is proposed to be only available on an opt-in basis for members under the age of 25, those with an account balance of less than $6000 and those who have not made a contribution in the previous 13 months.

Clients in these circumstances who currently have insurance in a super account will have 14 months after the law commences to opt-in to that existing insurance.

Implications for clients

Clients under 25 who wish to hold insurance in super will need to be more proactive in order to get the cover in place.

Of greater concern is the lapsing of cover for members who make no contribution for 13 months. There a range of situations in which such a rule would result in a client losing insurance they wished to maintain. Prime examples include:

- A client who has moved an employer, maintained their old fund to keep a superior insurance arrangement, but has yet to provide their employer with a choice of fund form.
- A client who has been on extensive unpaid leave particularly extended parental leave.
- A self-employed client who makes annual personal deductible contributions, but not at the same time each year. The client could make their deductible contribution in March one year, then May the following year and lose their insurance as a result.
- A client who is unemployed but uses their super account to fund insurance.

In these circumstances the client, and their adviser, will need to be proactive to ensure their insurance remains in place.

Protection for low super balances

Effective date: July 1, 2019

A limit on the annual fees that can be charged on superannuation accounts of less than $6000 has been proposed. Passive fees will be capped at 3% per annum and inactive accounts with balances below $6000 are to be transferred to the ATO.

Implications for clients

Clients and their advisers will need to ensure super accounts with small balances that they wish to keep in place are not left inactive.

Introduction of a retirement income covenant

Effective date: Unknown

All super funds will be required to develop a strategy to help their members achieve their retirement income goals under one Budget proposal.

Implications for clients

Little direct impact.

Social security

Increase in the Work Bonus

Effective date: July 1, 2019

The Work Bonus allows pensioners to earn employment income without it impacting their entitlements. Currently, the work bonus exempts $250 in employment income per fortnight from the income test. This amount is proposed to be increased to $300.

The Work Bonus is also proposed to be expanded to include earnings from self-employment.

Implications for clients

The increase in the Work Bonus, and the inclusion of self-employment income, will allow clients to engage in more part-time work without eroding their pension.

Means testing concessions for lifetime retirement products

Effective date: July 1, 2019

Government consultation has been undertaken around the creation of new retirement income stream products. The focus of much of this consultation has been on lifetime income streams, referred to as Comprehensive Income Products for Retirement (CIPR).

New social security means testing rules are proposed for pooled lifetime income streams. Such income streams would see 60 per cent of payments assessed as income. Furthermore, 60 per cent of the purchase price would be assessed as an asset until the client turns 84, or a minimum of 5 years, with only 30 per cent assessed as an asset thereafter.

Implications for clients

Concessional means testing will make these income streams a more attractive proposition when they come on the market.

Increase in the Newly Arrived Resident Waiting Period

Effective date: July 1, 2018

The Newly Arrived Resident Waiting Period (NARWP) was proposed to be increased from 2 to 3 years from July 1, 2018 in December’s Mid-Year Economic and Fiscal Outlook. This change is currently before the House of Representatives. A proposal in this Budget will further increase this waiting period to 4 years.

The NARWP is applied to a range of payments including Newstart, Carer Payment and Youth Allowance. If the bill currently before the parliament passes it will also be applied to the Family Tax Benefit, Paid Parental Leave and Carer Allowance. Exemptions apply for vulnerable groups and certain New Zealand citizens on special category visas.

Implications for clients

Those recently arrived in Australia may face longer waits before they are eligible for social security payments.

Aged care

14,000 home care packages to be funded

Effective date: from July 1, 2018

The Government proposes to commit to funding for an additional 14,000 high-level home care packages over 4 years.

Implications for clients

Clients who are waiting for a home care package may see their wait reduced.

Estate planning

National Register of Enduring Powers of Attorney

Effective date: Unknown

The Government proposes to liaise with state and territory governments to create a National Register of Enduring Powers of Attorney.

Implications for clients

When the register is established, clients should contact their solicitors to ensure any powers of attorney are registered.