2019/20 Federal Budget

April 2, 2019

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Overview

A federal Budget in an election year is subject to a degree of cautious interest. It is expected that the incumbent government will use the Budget to announce the fiscal policy they will take into their re-election campaign. However, unlike in non-election years, election year Budget proposals also stand a strong chance of not coming to pass should the incumbent government fail to secure re-election. It is through this uncertain lens that we view Treasurer Josh Frydenberg's first federal Budget.

Much conjecture in the lead-up to the early, April 2 Budget was around competing tax policies. In the 2018/19 federal Budget, the Coalition government outlined their seven-year personal income tax reform package. A cornerstone of the 2019/20 Budget is a further strengthening of the tax cuts legislated in 2018.

These accelerated tax cuts are complemented by a number of superannuation tweaks that allow clients to contribute more to super, and for longer. A one-off social security energy assistance payment and some softening of the administrative requirements for SMSFs round out the night's advice-related proposals.

Unless two elections are held this year (one for the half-Senate and one for the House of Representatives), the latest an election can be held is May 18, 2019. This means the Coalition government has a maximum of one joint sitting day to pass its Budget proposals before parliament is dissolved. This likely means that the majority of the Budget proposals are subject to an unknown Senate make-up, even if the Coalition wins a majority of lower house seats.

The upshot of this uncertainty is that advisers need to be aware of the proposals but also be aware that they may not come to pass. It also means the ALP's Budget reply will hold greater importance this year than is normally the case. Keep an eye out for wealthdigital's analysis of the opposition's Budget reply this Friday.

Taxation

LaMITO increase

Effective date: July 1, 2018

The Low and Middle Income Tax Offset (LaMITO), is proposed to be increased from the 2018/19 tax year onwards. A client's LaMITO will be based on their taxable income as shown in the table below.

Taxable income	Current LaMITO	Proposed LaMITO
Up to $37,000	$200	$255
$37,001 to $48,000	$200 plus 3c for every dollar above $37,000	$255 plus 7.5c for every dollar above $37,000
$48,000 to $90,000	$530	$1,080
$90,001 to $125,333	$530 minus 1.5c for every dollar above $90,000	$1,080 minus 3c for every dollar above $90,000
$125,334 and above	Nil	Top threshold increased to $126,000

Implications for clients

The table below shows the tax savings the LaMITO increase will provide clients by taxable income.

Taxable income	Additional LaMITO saving
$30,000	$55
$40,000	$190
$50,000	$550
$60,000	$550
$70,000	$550
$80,000	$550
$90,000	$550
$100,000	$400
$110,000	$250
$120,000	$100
$130,000	Nil

2022/23 personal income tax cuts

Effective date: From July 1, 2022

The upper threshold of the 19 per cent tax bracket is proposed to increase to $45,000 from $41,000 from July 1, 2022. This proposed change complements the already legislated increase in the upper threshold of the 32.5 per cent tax bracket. The proposed tax rates are summarised in the table below.

Current tax brackets		Proposed 2022/23 brackets	
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 - $45,000	Nil + 19% for each dollar over $18,200
$37,001 - $90,000	$3,572 + 32.5% for each dollar over $41,000	$45,001 - $120,000	$5,092 + 32.5% for each dollar over $45,000
$90,001 - $180,000	$20,797 + 37% for each dollar over $120,000	$120,001 - $180,000	$29,467 + 37% for each dollar over $120,000
$180,001+	$54,097 + 45% for each dollar over $180,000	$180,001+	$51,667 + 45% for each dollar over $180,000

LaMITO is legislated to cease at the end of the 2021/22 tax year, at which point the maximum amount of LITO is currently legislated to increase from $445 to $645. This year's Budget proposes to increase the maximum amount of LITO to $700 with the steeper taper rate to be 5c for every dollar from $37,000 to $45,000, rather than the currently legislated 6.5c per dollar from $37,000 to $41,000.

2024/25 personal income tax cuts

In 2024/25, the 37 per cent tax bracket is currently legislated to be abolished and the top tax bracket will be for those earning over $200,000. It is at this time that an additional, proposed tax cut is proposed to take effect, reducing the 32.5 per cent tax bracket to 30 per cent. The proposed tax rates are summarised in the table below.

Proposed 2022/23 brackets		Proposed 2024/25 brackets	
Taxable income	Tax payable	Taxable Income	Tax payable
$18,200 or less	Nil	$18,200 or less	Nil
$18,201 - $45,000	Nil + 19% for each dollar over $18,200	$18,201 - $45,000	Nil + 19% for each dollar over $18,200
$45,001 - $120,000	$5,092 + 32.5% for each dollar over $45,000	$45,001 - $200,000	$5,092 + 30% for each dollar over $45,000
$120,001 - $180,000	$29,467 + 37% for each dollar over $120,000	Abolished	
$180,001+	$51,667 + 45% for each dollar over $180,000	$200,001+	$51,592 + 45% for each dollar over $200,000

Implications for clients

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

Taxable income	2022/23 saving	Further 2024/25 saving
$35,000	$55	Nil
$40,000	$100	Nil
$50,000	$515	$125
$60,000	$515	$375
$70,000	$540	$625
$80,000	$540	$875
$90,000	$540	$1,125
$100,000	$540	$1,375
$120,000	$540	$1,875
$140,000	$540	$2,375
$160,000	$540	$2,875
$180,000	$540	$3,375
$200,000	$540	$3,875

Change to Medicare levy thresholds

Effective date: July 1, 2018

The Medicare levy thresholds for 2018/19 were announced, they are:

2017/18		2018/19	
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	$21,980	Single	$22,398
Family	$37,089*	Family	$37,794*
SAPTO^ recipient - single	$34,758	SAPTO^ recipient - single	$35,418
SAPTO^ recipient - family	$48,385*	SAPTO^ recipient - family	$49,304*

*Additional amount for each dependent student or child increases from $3,406 in 2017/18 to $3,471 in 2018/19

^SAPTO – Seniors' and Pensioners' Tax Offset

Implications for clients

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

Extending and increasing the immediate asset write-off for small business

Effective date: April 2, 2019

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 and 2018/19 tax years and was due to end on June 30, 2019. In February, a bill was introduced to parliament that would extend the higher threshold until July 1, 2020 and would increase the threshold to $25,000 between January 29, 2019 and July 1, 2020.

The 2019/20 Budget includes a proposal to increase this write-off from Budget night to $30,000 and can be applied to all asset purchases below that threshold. The lower, $25,000 threshold would apply from January 29 to April 2, 2019. The threshold is proposed to return to $1000 on July 1, 2020.

Currently, a small business entity for this measure is one with aggregated turnover of less than $10 million. This test is proposed to be broadened and will allow businesses with aggregated turnover of up to $50 million to access this tax benefit from Budget night.

Implications for clients

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

Superannuation

Work test and bring-forward contributions age thresholds moved to 67

Effective date: July 1, 2020

Currently, clients aged 65 or older at the date they make voluntary contributions to super are required to meet the work test. The work test requires that the client has been engaged in gainful employment for 40 hours in a period of no longer than 30 days in the financial year of contribution.

Similarly, clients can only use the bring-forward provisions for non-concessional contributions if they were aged under 65 at the start of the financial year of contribution. The bring-forward provisions allow clients to use up to three-years' worth of non-concessional contributions cap in the current financial year.

The Budget included proposals to increase both of these age thresholds from 65 to 67. This will align the work test requirements and bring-forward provisions with the end point of the incrementally increasing age pension age.

It is important to note that the test date for these two laws will remain different under the proposals. Eligibility to use the bring-forward provisions will still depend upon the client's age at July 1 in the financial year of contribution, whereas the work test requirement will depend upon the client's age as at the date of contribution.

Implications for clients

At the simplest level, the changes will extend the time period in which clients can voluntarily add to their superannuation without needing to meet the work test, as well as potentially increasing the amount they can contribute. There are more complex implications however, particularly when the interaction of these changes and the superannuation conditions of release are considered.

Opening the recontribution window

Recontribution strategies are commonly used to turn a client's taxable component into tax free component. For clients under 60, this can provide an immediate tax advantage. For those aged 60 or over, the tax benefit will be experienced by the client's non-tax dependants, can be a hedge against future legislative change or can be used to equalise the super balances of a couple.

Currently, clients who work until 65 and do not meet the retirement condition of release struggle to use a recontribution strategy as they cannot access their super early enough. Such clients do not meet a condition of release until they hit the catch-all "reaching age 65" condition of release. By this time they have a small window in which to execute a meaningful recontribution strategy while they still meet the work test or exemption, and can use the bring-forward provisions.

With the “reaching age 65” condition of release not proposed to change, but the work test requirements and bring-forward provisions proposed to be moved to 67, this brief window will increase to one of over two years.

Example

Cyril (63) is married to Beryl (64). Cyril and Beryl have superannuation savings of $500,000 and $100,000 respectively. Cyril’s super is made up entirely of taxable component. Beryl retired at 63 and executed a recontribution strategy at retirement that converted her super into tax free component.

Cyril wants to work until he is 66 in June 2021. He currently meets no condition of release so his only chance to execute a recontribution strategy using more than a single year’s non-concessional contribution cap is in June 2020, after he turns 65 (meeting a condition of release) but before the financial year ends on June 30. If he and Beryl wanted to equalise their super, they could do no better than adding $100,000 to Beryl’s super as she would be above the age limit for the bring-forward provisions. Even this equalisation would require Beryl to meet work test or exemption.

The changes proposed in the Budget open Cyril’s recontribution window significantly. He will still be able to access all his super from his 65th birthday. His opportunity to recontribute any withdrawal would be extended from the start of the change (June 30, 2020) until at least his 67th birthday when the work test and bring-forward limitation kicks in. What’s more, Cyril could withdraw all of his $500,000 upon his 65th birthday and recontribute $300,000 to his own account (using the bring-forward provisions) until at least his 67th birthday, as well as give $200,000 to Beryl to contribute as non-concessional monies (using the bring-forward provisions) to her account until at least her 67th birthday.

Such a strategy will ensure less tax is paid by any potential non-tax dependant upon Cyril and Beryl’s deaths, as well as equalise their balances. Equalisation may open future opportunities such as Cyril making catch-up concessional contributions (subject to a $500,000 total superannuation balance test) to defray tax obligations. It also operates as a general hedge against future legislative change.

Spouse contributions available until age 75

Effective date: July 1, 2020

The upper age limit at which a client’s super fund can accept spouse contributions on the client’s behalf is proposed to increase from 69 to 74.

Implications for clients

Given that a client's super fund is able to accept personal contributions up until age 74 (subject to the work test for those 65 or over), it seems logical that contributions made by the client's spouse be able to be accepted by the fund within the same timeframe, subject to the same work test.

This increase in the upper age limit for spouse contributions will enable the contributing spouse to qualify for the spouse contribution tax offset for longer. The offset is subject to an income limit ($40,000), residence requirements and a restriction on the contribution being claimed as a tax deduction. The offset can be as much as $540 on a $3,000 contribution.

Life insurance in super changes

Effective date: October 1, 2019

In the 2018/19 federal Budget, insurance in superannuation was 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. A bill has since passed parliament however it only disallowed opt-out insurance for members who were inactive for 16 months, and even then it narrowed the definition of inactive.

In February, a bill was introduced to parliament to again attempt to disallow opt-out insurance in super arrangements for young and low balance members. The government used the Budget to reinforce this as its policy position, although the ban on providing opt-out cover to such members would apply from October 1, 2019.

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.

SuperStream for SMSFs delayed

Effective date: March 31, 2021

The government has proposed to increase the range of superannuation fund transactions required to be made using the SuperStream protocols from March 31, 2021. As such, it is also proposed that SMSFs will not be required to adhere to the SuperStream protocols until that date. The previous date from which SMSFs were due to adhere to the SuperStream protocols was November 30, 2019.

Implications for clients

SMSF trustees have more time to prepare for the introduction of SuperStream for SMSFs.

Changes to actuarial certificate reporting for SMSFs

Effective date: July 1, 2020

The government proposed to allow super funds with members in both accumulation and retirement phase to choose their preferred method of determining Exempt Current Pension Income. Furthermore, it is proposed that no actuarial certificate will be required by funds using the proportionate method where all members of the fund are in retirement phase.

Implications for clients

SMSF trustees will have reduced reporting requirements and greater options when accounting for earnings supporting income streams.

Social security

Energy Assistance Payment

Effective date: April 2, 2019

The government proposed to make a one-off payment to help income support recipients with the rising cost of electricity. Those in receipt of the age pension, disability support pension, carer payment, parenting payment single and a range Department of Veterans' Affair payments (including service and war widow/widower pensions, the ISS and various impairment and disability payments) as at April 2, 2019 would be eligible. The one-off payment would be $75 for singles and $62.50 for each member of a couple.

Implications for clients

The payment represents a small but welcome additional bonus for social security recipients.

Streamlining employment income reporting

Effective date: July 1, 2020

The government proposed to streamline reporting of employment income for income support recipients. The Single Touch Payroll reporting system will be used by Centrelink and the Department of Veteran's Affairs (DVA) to collect employment income data from the recipient's employer.

Implications for clients

Income support recipients will have less data to report to Centrelink or the DVA directly.

Aged care

Home care packages funded and aged care subsidy

Effective date: from July 1, 2018

The Government proposes to commit to funding for an additional 10,000 high-level home care packages over 5 years. It is also proposed that a $320 million general subsidy be provided for residential aged care.

Implications for clients

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