2018/19 Federal Budget

TECHNICAL UPDATE | 08 MAY 2018 **ADVISER USE ONLY**

ANZ WEALTH

Introduction

On 8 May 2018, the Turnbull Government delivered the Federal Budget with a number of announcements impacting financial planners, including:

- A window of opportunity for recent retirees to make additional super contributions
- Increase in SMSF membership from four to six
- Personal income tax cuts
- Abandoning the proposed increase in the Medicare levy
- Work bonus increased and extended to self-employed persons
- New social security means testing of pooled lifetime income streams

The announcements in this Technical Update are proposals unless stated otherwise. These proposals need to successfully pass through Parliament before becoming law and may be subject to change during this process.

Many of the proposed measures are likely to have an impact on future cashflows for your client. Consider this when presenting financial planning projections for your clients.

Superannuation

Work test exemption allowing an extra year to contribute to super

1 July 2019

Individuals aged 65 to 74 with a total super balance below $300,000 can make voluntary contributions in the financial year after the financial year in which they last met the work test. Total super balance is determined at 30 June of the financial year that they last met the work test.

- The annual concessional and non-concessional contributions caps continue to apply.
- Any unused carried forward concessional contributions cap can be used.
- The bring-forward of non-concessional contributions cannot be triggered.

Example

At the age of 68, Gus retires from full-time work on 1 June 2020. His total superannuation balance is $150,000 at 30 June 2020. Under the work test exemption Gus is eligible to make voluntary contributions in the 2020/21 financial year (despite not satisfying the work test).

As Gus had not reached his concessional contribution cap over the past 2 years, having contributed only $18,000 in 2018/19 and $12,000 in 2019/20, under the existing carry forward arrangements and new work test exemption Gus can contribute up to $45,000 at concessional tax rates in the 2020/21 financial year. He is also able to contribute up to $100,000 in non-concessional contributions in 2020/21.

Implications for your clients

- Clients who cease work in the 2018/19 and future financial years may be eligible to make additional contributions into superannuation using the new work test exemption.
- Clients who have ceased work prior to 1 July 2018 are not eligible for the new work test exemption.

Stricter compliance and debt collection activities for personal tax deductible super contributions

1 July 2018

Additional funding will be provided to the ATO to improve the compliance and debt collection activities relating to the notice of intent to claim a tax deduction for personal super contributions process. Personal income tax returns will alert individuals to their notice of intent requirements and include a tick box to confirm that they have complied. The ATO will also provide guidance to individuals who have failed to comply.

The ATO have identified instances where a tax deduction has been claimed but the notice of intent was not submitted to the superannuation fund.

Implications for your clients

- Ensure that your clients follow the correct process to claim a tax deduction for personal super contributions.
- If your client has claimed a tax deduction for a personal super contribution and not submitted a notice of intent to claim a tax deduction with their super fund, they may be identified under the improved compliance activities.
- Strict timing requirements apply to when the notice of intent has to be submitted to the fund, including prior to submitting the personal income tax return for the relevant financial year.

Capping passive fees, banning exit fees and reuniting small and inactive super accounts

1 July 2019

As part of the Government's 'Protecting Your Super Package' a 3% annual cap on passive (administration and investment) fees charged by superannuation funds on accounts with balances below $6,000 will be introduced. Also, exit fees (excluding buy-sell spreads) on all superannuation accounts will be banned.

The package also includes consolidation measures to transfer all inactive super accounts with balances below $6,000 to the ATO and for the ATO to reunite these accounts (along with accounts currently held by the ATO) with the member's active account where possible.

The Government has released draft legislation which provides further details for public consultation until 29 May.

Implications for your clients

- Help clients search for lost and inactive super to determine whether or not to consolidate accounts.
- Opportunity for clients with low super balances to re-engage with their super.

Changes to insurance in superannuation

1 July 2019

The Government's 'Protecting Your Super Package' includes changes for insurance within superannuation to move from a default framework to an opt-in basis for members:

- with balances of less than $6,000;
- under the age of 25 years;
- whose accounts have not received a contribution in 13 months and are inactive.

The changes are intended to protect retirement savings from erosion by insurance premiums for cover that is not needed and to reduce costs for multiple insurance policies, which may not be able to be claimed on. Importantly, insurance through super will still be available on an opt-in basis. The measures are proposed to start from 1 July 2019 and affected members will have 14 months to decide whether to opt-in to their existing cover or allow it to cease.

Further details can be found in the draft legislation which has been released for public consultation.

The Government will also consult on ways in which the current policy settings could be improved to better balance the priorities of retirement savings and insurance cover within super.

Implications for your clients

- Consider insurance needs (if any) of your affected clients and the most appropriate fund(s) to maintain insurance benefits.
- Affected clients will need to actively opt-in to maintain insurance coverage.
- Opportunity for an insurance review to determine if insurance through super meets your clients' needs or if cover should be structured outside of superannuation or a combination through a linking arrangement.

Increasing SMSFs and small APRA fund membership from four to six

1 July 2019

As announced previously, the Government will increase the maximum number of allowable members in new and existing self-managed superannuation funds (SMSFs) and small APRA funds from four to six.

Implications for your clients

- Greater flexibility for larger families to manage retirement savings.
- Ability to admit more members into these funds upon change in circumstances such as the death or exit of an existing member.
- Opportunity to review if current arrangements are meeting a client's retirement objectives and to discuss potential increases of membership or other restructuring depending upon their circumstances.

Preventing inadvertent concessional cap breaches by certain employees

1 July 2018

Individuals working for multiple employers and earning more than $263,157 (threshold where 9.5% SG will exceed $25,000 concessional contributions cap) will be able to nominate that income from certain employers is not subject to the superannuation guarantee.

Implications for your clients

- Ability for affected clients to avoid excess concessional contributions consequences.
- Ascertain if employers will negotiate payment of other benefits or additional wages if an employee nominates income is not to be subject to SG.

Further super proposals

Measure	Effective from
SMSFs with three consecutive years of clear audit reports and have lodged the annual returns in a timely manner will change from an annual audit requirement to a three yearly requirement.	1 July 2019
ATO to receive further funding for strategies to increase collection of unpaid tax and super.	2018/19
Increased Financial Institutions Supervisory Levies to recover costs of ATO's super activities.	2018/19
Reform of corporations and tax laws to combat illegal phoenixing including non-payment of super guarantee contributions.	2019/20
Increased funding for the ATO to help small businesses (less than 20 employees)	1 July 2019

transition to the Single Touch Payroll Reporting	
Introduction of a retirement income covenant into super law requiring trustees to develop a strategy that would help members achieve their retirement income objectives. The covenant will include the offering of Comprehensive Income Products for Retirement (CIPRs) that provide individuals income for life. The Government will be releasing for consultation a position paper outlining its proposed approach to the covenant.	Not specified
Formulation of new disclosure requirements for providers of retirement income products to report simplified standardised metrics to help customer decision making.	Not specified
The Government has recommitted to technical amendments for transition to retirement income stream (TRIS) rules upon the death of a member. For further information refer to Treasury Laws Amendment (2018 Measures No. 4) Bill 2018.	1 July 2017

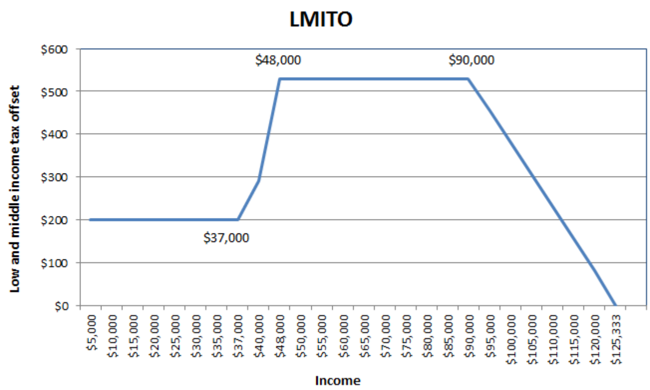
Taxation

Personal income tax cuts

From 1 July 2018

Changes to the personal income tax rates are made over a 7 year period as outlined below.

In addition to the Low Income Tax Offset (LITO), a new Low and Middle Income Tax Offset (LMITO) is introduced - a non-refundable tax offset of up to $530 per annum to Australian resident low and middle income taxpayers. The offset is only available for the 2018/19, 2019/20, 2020/21 and 2021/22 financial years. The Low and Middle Income Tax Offset provides a benefit up to $200 where taxable income is $37,000 or less. Between $37,000 and $48,000, the offset increases at a rate of 3 cents per dollar to the maximum benefit of $530. Taxpayers with taxable incomes from $48,000 to $90,000 are eligible for the maximum benefit of $530. From $90,001 to $125,333, the offset phases out at a rate of 1.5 cents per dollar. This new tax offset effectively operates similar to the existing low income tax offset. The graph and table below illustrates the relationship between taxable income and LMITO.



Income	LMITO
≤$37,000	Up to $200
$37,000 to $48,000	$200 + (income - $37,000) x 0.03
$48,000 to $90,000	$530
$90,000 to $125,333	$530 – (income - $90,000) x 0.015
≥$125,333	Nil

From 1 July 2018, the upper threshold of the 32.5% income tax bracket increases from $87,000 to $90,000. From 1 July 2022, the low income tax offset increases from $445 to $645. Furthermore, the upper threshold of the 19% income tax bracket increases from $37,000 to $41,000. The increased low income tax offset has a taper rate of 6.5 cents per dollar between income of $37,000 and $41,000 and at a rate of 1.5 cents per dollar between incomes of $41,000 and $66,667. From 1 July 2022, the upper threshold of the 32.5% income tax bracket increases from $90,000 to $120,000.

From 1 July 2024, the upper threshold of the 32.5% income tax bracket increases from $120,000 to $200,000. The top marginal tax rate of 45% applies for taxable incomes exceeding $200,000 and the 32.5% tax bracket will apply to taxable incomes of $41,001 to $200,000. The 37% marginal tax rate will cease to exist.

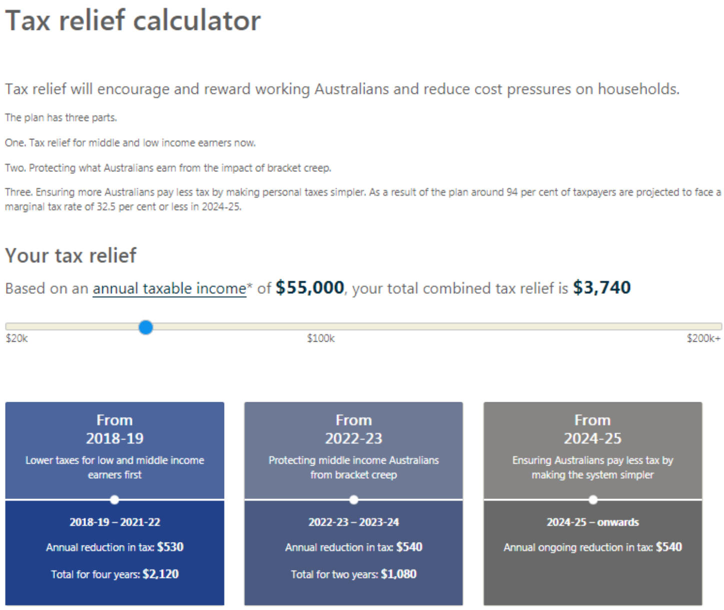
The table below summarises the above proposals.

Rate	Current threshold	New threshold from 1 July 2018	New threshold form 1 July 2022	New threshold from 1 July 2024
Nil	0 - $18,200	0 - $18,200	0 - $18,200	0 - $18,200
19%	$18,201 - $37,000	$18,201 - $37,000	$18,201 - **$41,000**	$18,201 - **$41,000**
32.5%	$37,001 - $87,000	$37,001 - **$90,000**	**$41,001** - **$120,000**	**$41,001 - $200,000**
37%	$87,001 - $180,000	**$90,001** - $180,000	**$120,001** - $180,000	-
45%	$180,000+	$180,000+	$180,000+	**$200,000+**
Low and middle income tax offset (max)	-	**$530**	-	-
Low income tax offset (max)	$445	$445	**$645**	**$645**

The proposed changes result in the following future tax cuts.

Income	Tax cut from 1 July 2018	Tax cut from 1 July 2022 (compared to 2017/18)	Tax cut from 1 July 2024 (compared to 2017/18)
$30,000	$200	$200	$200
$40,000	$290	$455	$455
$50,000	$530	$540	$540
$60,000	$530	$540	$540
$70,000	$530	$540	$540
$80,000	$530	$540	$540
$90,000	$665	675	$675
$100,000	$515	$1,125	$1,125
$110,000	$365	$1,575	$1,575
$120,000	$215	$2,025	$2,025
$130,000	$135	$2,025	$2,475
$140,000	$135	$2,025	$2,925
$160,000	$135	$2,025	$3,825
$180,000	$135	$2,025	$4,725
$200,000	$135	$2,025	$7,225

An online calculator is available to estimate the tax benefits given a specified level of income (see screenshot below).



Implications for your clients

- From 1 July 2018, the tax cuts are largest for the low to middle income earners. However, the tax cuts from 1 July 2022 and 1 July 2024 are largest for higher income earners.
- Consider using the tax cut to fund additional super contributions or insurance premiums.

Proposed Medicare levy increase abandoned

1 July 2019

In last year's Federal Budget, the Government proposed to increase the Medicare levy from 2% to 2.5% from 1 July 2019 to help fund the cost of the National Disability Insurance Scheme. The Government has abandoned this proposal.

Small business accelerated depreciation extended

Until 30 June 2019

Small businesses with aggregate annual turnover of less than $10 million can immediately deduct eligible assets costing less than $20,000 first used or installed ready for use by 30 June 2019. The proposal provides a further 12 month extension of the current deduction that was set to expire on 30 June 2018. Certain assets are not eligible, for example horticultural plants and in-house software.

Assets valued at $20,000 or more can continue to be placed in the small business simplified depreciation pool and depreciated at 15% in the first income year and 30% thereafter. The pool can also be immediately deducted if the balance is less than $20,000 over this period (including existing pools).

From 1 July 2019, the thresholds for the immediate deduction of assets and the value of the pool will revert to $1,000.

Implications for your clients

- Small businesses may consider acquiring eligible assets in the 2017/18 or 2018/19 financial years and take advantage of the significant upfront deduction.

Denying deductions for vacant land

1 July 2019

Deductions for expenses associated with holding vacant land (residential or commercial) will be denied. Denied deductions cannot be carried forward for use in later income years and cannot be included in the cost base if they would not ordinarily form part of the cost base.

This measure will not apply to expenses incurred after:

- A property has been constructed on the land, it has received approval to be occupied and is available for rent, or
- The land is being used by the owner to carry on a business (including primary production).

Implications for your clients

- Clients currently holding vacant land or considering investing in vacant land should consider the potential impact of losing deductions for expenses if affected by this measure.

Further tax proposals

Measure	Effective from
Unpaid present entitlements will come within the scope of Division 7A from 1 July 2019. This will apply where a related private company is made entitled to a share of trust income as a beneficiary but has not been paid that amount, known as an unpaid present entitlement. This measure will ensure the unpaid present entitlement is either required to be repaid to the private company over time as a complying loan or subject to tax as a dividend. The start date of the 'Ten Year Enterprise Tax Plan — targeted amendments to Division 7A' announced in the 2016/17 Federal Budget is deferred for 12 months to 1 July 2019.	1 July 2019
From 7:30PM (AEST) on 8 May 2018, partners that alienate their income by creating, assigning or otherwise dealing in rights to the future income of a partnership will no longer be able to access the small business CGT concessions in relation to these rights.	8 May 2018
A specific anti-avoidance rule that applies to closely held trusts that engage in circular trust distributions will extend to family trusts. Currently, where family trusts act as beneficiaries of each other in a round robin arrangement, a distribution can be ultimately returned to the original trustee in a way that avoids any tax being paid on that amount.	1 July 2019
The concessional tax rates available for minors receiving income from testamentary trusts will be limited to income derived from assets transferred from the deceased estate or proceeds of the disposal or investment of those assets. Currently, some taxpayers are able to inappropriately obtain the benefit of the concessional tax rate by injecting assets unrelated to the deceased estate into the testamentary trust.	1 July 2019
The Medicare levy low income thresholds for singles increases to $21,980. The threshold for families increases to $37,089 and the additional amount of threshold for each dependent child or student increases to $3,406. For single seniors and pensioners, the threshold increases to $34,758.	Figures apply for 2017/18

Social security

Increasing the Work Bonus to $300 per fortnight

1 July 2019

Currently, the first $250 per fortnight of employment income for eligible pensioners over Age Pension age is disregarded under the social security income test. Further, an eligible person is allowed to accrue unused amounts of Work Bonus to a maximum of $6,500 referred to as the employment income concession bank. Currently, the Work Bonus only applies to employees.

From 1 July 2019, the Work Bonus will increase to $300 per fortnight. This means that the first $300 of income from work each fortnight will not count towards the pension income test. Further, unused amounts of the Work Bonus can be accrued to a maximum of $7,800 in the employment income concession bank.

From 1 July 2019, the Work Bonus will also be extended to self-employed individuals. There will be a "personal exertion" test to ensure only self-employed people who earn income from participation in gainful work are eligible for the Work Bonus. The Work Bonus is not intended to apply to income from financial or real estate investments.

The changes are expected to benefit more than 88,000 pensioners.

Example

Jane (68) is a single, income tested part Age Pension recipient. She earns employment income of $1,000 per fortnight. She has no other assessable income. The below table outlines the impact of the proposed changes

	Current per fortnight ($)	From 1 July 2019 – per fortnight ($)
Employment income	1,000	
Work Bonus	250	300
Income free threshold (as at 20 March 2018)	168	
Assessable income	582	532
Age pension reduction	291	266
Increase in Age Pension	25 per fortnight	

Implications for your clients

- Increased Work Bonus may allow more gainful employment income to be earned before it is assessed under the income test. There may be an increase of up to $25 per fortnight (single) or up to $50 per fortnight if both members of a couple have employment income above certain thresholds.
- Eligible self-employed individuals may see an increase in social security entitlements.

Means testing of lifetime income streams

1 July 2019

Age Pension means testing rules for pooled lifetime income streams will assess a fixed 60% of all payments as income and 60% of the purchase price of the product as assets until age 84 (or a minimum of 5 years) and then 30% thereafter for the remainder of the person's life. Pooled lifetime income streams are a component of the Government's planned My Retirement Product or Comprehensive Income Products for Retirement (CIPRs) aimed at encouraging retirees to allocate a portion of their superannuation savings in products that manage longevity risk.

Existing pooled lifetime income streams purchased before 1 July 2019 will be grandfathered (ie assessed under the current rules).

Means testing of pooled lifetime income streams	Income Test	Asset Test
Current assessment	Payment less deductible amount	Capital reduction rules: Purchase price is reduced bi-annually or annually on a straight-line basis over life expectancy
New assessment from 1 July 2019	60% of payments	60% of Purchase Price until age 84 30% of Purchase Price for rest of person's life

Implications for your clients

- Proposed new means testing of pooled lifetime income streams offer asset test advantages initially, however a higher asset value is assessed after age 84 (the current life expectancy for a male aged 65), than is currently assessed under existing rules.
- Pooled lifetime income streams purchased prior to 1 July 2019 provide a more concessional asset test assessment when life expectancy is reached. Clients who are in good health and anticipate living past their life expectancy, who purchase pooled lifetime income streams prior to 1 July 2019 may receive a higher Age Pension where their entitlement is determined by the assets test.

Expansion of the Pension Loans Scheme

1 July 2019

The Pension Loans Scheme (PLS) acts as a government reverse mortgage arrangement which currently allows pensioners over Age Pension age to unlock equity in their home to top up their pension to the maximum rate. It also allows self-funded retirees who are precluded from Age Pension due to the income or assets test, but not both, to obtain a loan up to the maximum rate of Age Pension.

From 1 July 2019, the maximum rate an eligible individual can receive under the PLS will increase to 150% of the Age Pension. It is currently 100% of the Age Pension. Full rate pensioners will be able to increase their income by up to $11,799 (singles) or $17,787 (couples) per year by unlocking the equity in their home.

The current interest rate for the scheme is 5.25 percent and will apply to new and existing loans. This rate has not changed since 25 December 1997.

To apply for a payment (loan) under the PLS, a recipient needs to make an appointment with a Financial Information Services Officer to discuss terms and conditions.

Existing age-based loan to value ratio limits will continue to apply. This means that PLS recipients will not be able to owe the Government more than what their home is worth.

Implications for your clients

- Expansion of PLS may allow eligible individuals to increase their cashflow by unlocking equity in their home.
- Could be a consideration for recipients who are contemplating a reverse mortgage by a commercial provider.

Increasing the Newly Arrived Migrants waiting period

1 July 2018

The Newly Arrived Resident's Waiting Period (NARWP) will be increased for a number of welfare payments to four years. It is proposed to apply to newly arrived people who have been granted a permanent resident visa, or some temporary visas, on or after 1 July 2018. The Assurance of Support period applying to some family visas will also increase to four years for applications lodged on or after 1 July 2018.

Implications for your clients

- Affected new migrants may have to wait longer before applying for affected payments.

Further social security proposals

Measure	Effective from
To receive Carer Allowance or a Carer Allowance Health Care Card, the combined income of the carer and their partner must be under $250,000 per annum.	20 September 2018

Aged care

New high level home care packages

Over 4 years from 1 July 2018

In response to the growing demand for high-level care at home, the Government will deliver an additional 14,000 new high level home care packages over four years from the 2018/19 financial year. Home care packages provide assistance with day-to-day activities in the person's home.

Implications for your clients

- Clients who require a high level of care and prefer to remain living in their own home may be eligible for a new high level home care package.

Further aged care proposals

Measure	Effective from
Simpler means testing forms for clients with straight forward financial affairs entering aged care.	Available from May 2019
12 month trial of the use of dedicated Financial Information Service (FIS) Aged Care specialists to assist clients entering into aged care with the financial aspects of aged care assessment. Clients located in trial sites will have access during the 12 month trial period.	September 2018 to September 2019
Protecting older Australians from abuse. A national legal framework and National Register of Enduring Powers of Attorney will be established in conjunction with the State and Territories. Currently the legal framework and registration for Enduring Powers of Attorney may differ according to the State or Territory.	To be announced

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