IOOF

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Federal Budget 2018/19

There is no doubt this is an 'election budget'. The Treasurer has taken just under half of the $35 billion of improved revenue and turned it into tax cuts targeted to benefit all Australians.

The first round of personal income tax cuts will start on 1 July 2018 and include:

- a temporary tax offset for low and middle income earners of $200 pa (for individuals earning up to $37,000 pa) increasing to $530 pa (for those earning from $48,000 to $90,000 pa) then phasing out from $90,000 to $125,333 pa
- raising the 32.5% tax threshold to $90,000.

These temporary tax concessions will end on 30 June 2022.

We will have to wait until 1 July 2022 before we get the second round of tax cuts:

- An increase to the low income tax offset from $445 pa to $645 pa.
- A further increase to the 32.5% tax threshold to $120,000.

Finally, from 1 July 2024, the 37% marginal tax rate will be abolished and the 32.5% tax threshold will be increased to $200,000.

On the expenditure side, the Government has rolled out the bucks for aged care, and rightfully so. However, 14,000 new aged care places is way short of the 100,000 places currently needed.

All Australians of Age Pension age will have access to the improved Pension Loan Scheme. The Pension Work Bonus will be increased and extended to the self-employed.

Superannuation got some attention with a series of integrity reforms, changes to self-managed super funds (SMSFs) and small APRA funds (SAFs).

From 1 July 2019, SMSFs and SAFs can increase to six members and SMSFs with good track-records can move from annual to three-year audits.

From 1 July 2019:

- Members over age 65 will not have to meet the work test to make contributions to super in the first year after they stop working. This is so long as their super savings are less than $300,000.
- Exit fees will be abolished on all super accounts.
- For super accounts under $6,000, administration and investment fees will be limited to 3%, measured half-yearly, and capped at $90 per six months.
- Inactive accounts under $6,000 will be transferred to the Australian Taxation Office (ATO) to be consolidated with the member's active account.
- Opt-out insurance will be banned for those under 25 or if there is less than $6,000 in the super account.
- The ATO will undertake a review of the section 290-170 Notice system to ensure that members put in their notice before getting a tax deduction for personal contributions.

All-in-all there are big ticket tax cuts and a lot of little reforms hidden in the woodwork. It isn't a glamourous Budget and there's likely to be plenty more left in the tank for an election later this year.

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Superannuation

The Government's 'Protecting Your Super Package'

From 1 July 2019, the Government will introduce a 'Protecting Your Super Package' covering fees, lost member accounts and insurance arrangements.

Passive fees

The Government will introduce a cap on fees for superannuation accounts with low balances.

If the balance of a member's superannuation account is less than $6,000, the maximum amount of administration and investment fees that can be deducted from the account in the following six month period is 1.5% of the balance, or $90 per six months.

There is no restriction on member-agreed advice fees.

There is also no maximum amount of administration and investment fees that can be deducted for balances above $6,000.

Exit fees

Exit fees will be banned on all superannuation accounts, regardless of the balance of the account.

Lost super members

Superannuation accounts with balances below $6,000 that have been inactive for 13 months will be paid to the ATO.

In addition, without being directed by a member, the ATO must pay amounts held on behalf of a person to an active superannuation account when the balance of their consolidated account is $6,000 or more.

Insurance

Super funds will be prohibited from automatically providing insurance to certain members.

The member categories that must opt-in for insurance cover include:

- new accounts for a person under age 25
- members with account balances below $6,000
- members with accounts that have been inactive for 13 months.

Funds will be required to notify affected members by 1 May 2019 in order to provide them with the opportunity to elect to continue their insurance.

Members will still be able to opt-in to insurance however, underwriting is likely to be required.

TechConnect comment

This package is designed to reduce the erosion of super funds with small balances. Funds may need to further strengthen their member communication and education regarding the value of insurance.

Notice of intent to claim a tax deduction

From 1 July 2018, there will be changes to the process for members claiming a tax deduction for contributions made to super. The current process of claiming a tax deduction for personal super contributions is convoluted and complex. Many members are denied a deduction because they have not understood all of the conditions that make a claim invalid. The Government also has concerns that some members claim a tax deduction and do not notify the fund. This means the fund does not tax the contribution, resulting in reduced collection of tax revenue.

TechConnect comment

The super industry has been asking for a simplification of this process for many years. The functionality of SuperStream and better data matching capabilities by the ATO provide significant improvement opportunities for this process.

Super guarantee opt-out

From 1 July 2018, individuals who have multiple employers and whose employment income exceeds $263,157 pa will be able to opt-out of superannuation guarantee payments that would otherwise result in excess concessional contributions. Employees may be able to negotiate higher income in lieu of super guarantee contributions.

TechConnect comment

This will be a welcome change for many employees on higher incomes with multiple roles.

Super fund membership

Self-managed super funds (SMSFs) and small APRA funds (SAFs) will be able to increase the number of members from a maximum of four to a maximum of six. The increased membership will apply from 1 July 2019. Some SMSFs will need to ensure that their trust deeds are updated to lift the restriction on the number of members from four.

TechConnect comment

This may appeal to some families, particularly in respect of intergenerational wealth transfers.

SMSF three yearly audit cycle

From 1 July 2019, SMSFs that have clear audit reports over three consecutive years and have lodged the fund’s annual returns in a timely manner, will be able to move to a three-year audit cycle. The measure will reduce compliance costs for SMSF trustees who have a good compliance history. The Government will consult with industry stakeholders on this issue.

TechConnect comment

It will be interesting to see what the consultation brings, in line with Australian Securities and Investments Commission’s (ASIC’s) ongoing review of SMSF auditors.

Work test exemption

From 1 July 2019, members aged between 65 and 74 who have super balances below $300,000 will be able to make voluntary contributions in the first year that they do not meet the work test requirements.

TechConnect comment

This will provide retirees with very low balances some additional flexibility and may assist with small business CGT concessions.

Taxation

Taxation – individuals

Medicare levy rate

As part of the 2017/18 Federal Budget, the Government proposed to increase the Medicare levy rate to 2.5% from 1 July 2019. This proposal has now been reversed and the Medicare levy rate will remain at 2%.

TechConnect comment

A nice win by keeping the rate the same as it is today.

Low and middle income tax offset and low income tax offset

In addition to the existing low income tax offset, the Government will introduce the low and middle income tax offset which will apply from the 2018/19 financial year to the 2021/22 financial year inclusive. The offset will be applied on a tiered basis as outlined in the table below.

Taxable income pa	Offset available pa
Up to $37,000	$200
$37,001 to $48,000	$200 plus 3 cents for every dollar over $37,000
$48,001 to $90,000	$530 flat
$90,001 to $125,333	$530 less 1.5 cents per dollar over $90,000
$125,334 or above	No rebate available

Note this offset applies in addition to the existing low income tax offset, which does not change during the time the new offset applies.

From 1 July 2022, the low income tax offset will increase from $445 to $645. This offset will reduce by 6.5 cents for every dollar over $37,000 up to $41,000 for an offset of $385. From $41,000, the offset reduces at 1.5 cents resulting in no offset applying for incomes in excess of $66,667.

TechConnect comment

It is interesting to note the low and middle income tax offset is a temporary measure to provide ‘immediate relief’. Once this new tax offset ends however, the implementation of the changes to the low income tax offset and marginal tax rates should provide ongoing relief.

With the additional low and middle income tax offset, the effective income tax-free threshold will be lifted from the current $20,542 to $21,595.

Changes to marginal tax rates

There are a number of proposed changes to marginal tax rates over the next seven years:

- From 1 July 2018 the 32.5% upper threshold is proposed to increase from $87,000 to $90,000.
- From 1 July 2022 the 32.5% upper threshold is proposed to increase from $90,000 to $120,000 and the 19% threshold is proposed to increase from $37,000 to $41,000.
- From 1 July 2024, the 32.5% upper threshold is proposed to increase from $120,000 to $200,000 and the 37% tax rate is proposed to be removed.

The top marginal rate will also be extended to taxable income exceeding $200,000. The marginal rates would be as per the below table:

1 July 2024 taxable income pa	Marginal tax rate
Up to $18,200	0%
$18,201 to $41,000	19%
$41,001 to $200,000	32.5%
$200,001 and above	45%

According to Treasury, once both the low income tax offset and the marginal tax rate changes have been implemented, 94% of taxpayers will incur tax at a marginal rate of 32.5% or less and a single person on $80,000 will pay $540 less in tax.

TechConnect comment

Overall the combined impact of these changes is to simplify the marginal tax rate system and reduce the amount an individual pays in tax. However, the next seven years will see added complexity for individuals when estimating their tax returns as well as changes to PAYG deductions.

Medicare levy low income thresholds

Effective 1 July 2017, the Medicare levy low income thresholds will be increased to reflect movements in consumer price index (CPI). The new thresholds are outlined in the table below:

Personal situation	Existing threshold	New threshold
Single	$21,655	$21,980
Family	$36,541	$37,089
Single pensioner	$34,244	$34,758
Family pensioner	$47,670	$48,385
Additional threshold per dependent child	$3,356	$3,406

TechConnect comment

A welcome change for low income earners.

Income tax exemption for certain veteran payments

From 1 May 2018, the following components of the Veteran Payment will be exempt from tax:

- Supplementary amounts of this payment, such as pension supplement and rent assistance, when made to veterans directly.
- The full payment plus supplement amounts, when the payment is made to the partner of a veteran who has died.

TechConnect comment

This is a welcome measure which comes from a Senate Inquiry into veteran suicide.

Taxation – businesses

$20,000 instant asset write-off extended

The Government has proposed to extend the instant asset write-off for business assets up to $20,000 until 30 June 2019. This measure was originally introduced in the 2015/16 Budget and was due to expire at the end of this financial year. This measure allows businesses with an aggregated turnover of less than $10 million to immediately deduct purchases of eligible assets costing less than $20,000.

TechConnect comment

This measure will continue to improve cash flow for small business by the ability to claim a higher amount of deduction on purchasing eligible assets.

Removing tax deductibility of non-compliant payments to employees and contractors

To address the problem associated with the black economy, the Government will introduce the Black Economy Package including the removal of tax deductibility of non-compliant payments.

Under this measure, from 1 July 2019, business will no longer be able to claim tax deductions for payments to their employees where they have not withheld any amount of PAYG even though PAYG withholding requirements apply.

The Government will also remove deductions for payments made by businesses to contractors where the contractor does not provide an ABN and the business does not withhold any amount of PAYG despite the withholding requirements applying.

TechConnect comment

From 1 July 2019, businesses need to ensure they meet the PAYG obligations when making payments to employees and contractors to be able to claim a deduction on these payments.

International tax - updating the list of information exchange countries

The Government will update the list of countries whose residents are eligible to access a reduced withholding tax rate of 15%, instead of the default rate of 30%, on certain distributions from Australian managed investment trusts (MITs). Listed countries are those which have established the legal relationship enabling them to share taxpayer information with Australia. The update will add the 56 jurisdictions that have entered into information sharing agreements since 2012.

The updated list will be effective from 1 January 2019.

TechConnect comment

This is a benefit for non-residents resulting from Australian and international tax co-operation.

Tax integrity measures

Change to taxation on testamentary trusts

From 1 July 2019, it is proposed that minors receiving income from testamentary trusts will only benefit from adult tax rates on income derived directly from assets transferred from the deceased estate, and the proceeds from the investment and disposal of those assets.

TechConnect comment

Based on the wording in the Budget paper this should not impact the majority of testamentary trusts. The measure aims to stop schemes where additional capital unrelated to the deceased is injected into the testamentary trust. However, complexity may be in the detail with regard to the implementation of this measure.

Clarifying the operation of the Division 7A integrity rule

From 1 July 2019, the Government has announced that it will 'ensure' that unpaid present entitlements fall under the scope of Division 7A provisions of the *Income Tax Assessment Act 1936*.

This will apply where a related private company is 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 (ie Division 7A loan) or subject to tax as an unfranked dividend.

It has also proposed to defer the targeted amendments to Division 7A which were announced in the 2017 Budget to 1 July 2019, to ensure both amendments commence at the same time.

TechConnect comment

In theory, integrity measures should ensure the intended operation of law without impact on the majority of individuals, however given the recent introduction of the small business CGT integrity measures announced in last year's Budget, it will be interesting to see how far the changes to Division 7A go.

Disallowing deductions for vacant land

From 1 July 2019, the Government will deny deductions for expenses associated with holding vacant land. This is an integrity measure to address concerns that deductions are being improperly claimed for expenses (such as interest costs) related to holding vacant land, where the land is not genuinely held for the purpose of earning assessable income.

The denied deductions will not be available to be carried forward in future years, although capital expenses could still be added to the cost base of a property.

Deductions will not be impacted when they are incurred after construction has commenced or the land has started being used for a business.

TechConnect comment

An integrity measure which should further discourage 'land banking' or similar practices.

Alienated partnership income and small business CGT concessions

Effective from 7.30pm on 8 May 2018, if passed, individuals who assign rights dealing with the future income of a partnership will not be able to access the small business CGT concessions in relation to these rights.

TechConnect comment

Partnerships who assign the right to future income from the partnership to other entities will need to review their affairs to consider whether these rights may continue to be appropriate given this change.

Changing the distribution of capital gains within managed funds

From 1 July 2019, registered managed investment trusts and attribution managed investment trusts will not benefit from the 50% capital gains tax discount rate themselves.

These trusts will distribute the gross gain and if the beneficiary who receives the gain would be eligible for the discount if the individual held the asset themselves, the beneficiary will be able to apply the discount.

This measure will prevent beneficiaries who are not entitled to the CGT discount in their own right from receiving a benefit from the CGT discount being applied at the trust level.

TechConnect comment

In practice this will not impact individuals or super funds, nor will it apply to private trust arrangements such as family trusts or closely held trusts.

Taxation of income based on fame and image

From 1 July 2019, income generated based on a person's fame or image will no longer be able to be assigned to other entities through licencing agreements and will be included in the individual's assessable income. This is to remove the ability for individuals to assign licencing rights to related party companies and trusts to have income generated based on their personal fame or image taxed at a lower rate than their marginal rate.

Based on the announcement it is not expected to apply to third party arms-length arrangements.

TechConnect comment

For individuals who are currently generating income from their fame or image, a review of their structures may be needed once detailed legislation is released.

Social security

Increase to the Pension Work Bonus from $250 to $300 per fortnight

The Pension Work Bonus is an income test concession for age pensioners and Veterans' Affairs pensioners.

Currently, the first $250 of employment income a fortnight is not counted in the Age Pension income test.

From 1 July 2019, the Government plans to increase the Pension Work Bonus from $250 to $300 per fortnight and extend eligibility to those who are self-employed rather than only the employed.

This amount has not been increased since 2011.

To ensure the Work Bonus only applies to those actually engaged in gainful work, there will be a 'personal exertion' test. This means the Work Bonus would not apply to income associated with returns on financial or real estate investments.

The Work Bonus operates in addition to the pension income test-free area. From 20 March 2018, for single pensioners, the pension income test-free area is $168 a fortnight and for couples combined, it is $300 a fortnight. For example, this means a single pensioner over Age Pension age with no other income could earn up to $468 a fortnight ($12,168 pa) from employment or self-employment and still receive the maximum rate of pension under the income test.

Pensioners will also continue to accrue unused amounts of the fortnightly Work Bonus, which means future earnings can be exempt from the pension income test. The maximum accrual amount will increase to $7,800 (from $6,500).

TechConnect comment

By enabling self-employed clients to utilise this concession, it encourages clients of Age Pension age who are self-employed to continue working.

Expansion of the Pension Loans Scheme

Currently, the Government offers a reverse mortgage through the Pension Loans Scheme (PLS) to part pensioners and some nil-rate pensioners to allow them to 'top up' their Age Pension to the maximum rate. This provides an option for Australians who have equity in real estate in Australia to supplement their income.

From 1 July 2019, the Government proposes to:

- expand eligibility of the Pension Loans Scheme (PLS) to all Australians of Age Pension age including maximum-rate age pensioners, and
- increase the maximum allowable combined Age Pension and PLS income stream to 150% of the Age Pension rate.

Full-rate pensioners will be able to increase their income by up to $11,799 (singles) or $17,787 (couples) per year. These loan amounts are non-taxable unless the money is invested and earnings are derived.

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

Loan amounts will accumulate as a debt to the Government which includes compounded interest. The current PLS interest rate of 5.25% pa will apply to existing and new loans.

Repayments of the loan generally occur from the sale proceeds once the house is sold however it can be repaid at any time.

TechConnect comment

Expanding the availability to maximum-rate age pensioners helps more Australians access Government lending. However, it appears the loan remains only as fortnightly payments with no option for lump sums. A lump sum payment would assist people to fund home renovations, aged care or reduce higher interest debt.

Means testing for lifetime products

From 1 July 2019, new Age Pension means testing rules will be introduced for pooled lifetime income streams. The rules will assess a fixed 60% of all pooled lifetime product payments as income, and 60% of the purchase price of the product as assets until age 84, or a minimum of five years, and then 30% for the remainder of the person's life.

Pooled lifetime income streams purchased before 1 July 2019 will be grandfathered.

TechConnect comment

These new rules will provide the wealth management industry with the confidence and stability to develop innovative products that can help retirees manage the risk of outliving their income while ensuring a fair and consistent means test treatment of all retirement income products. These changes also pave the way for the development of comprehensive income products for retirement (CIPR).

These income products are intended to provide retirees with more choices and flexibility in retirement income products to meet a wider variety of needs and to help boost their living standards.

It appears that people will not be forced to take up CIPR at retirement, it will simply increase the choice of retirement products available to manage longevity risk.

Youth Allowance

To assist youth from regional and rural communities, the Government will increase the parental income test threshold under the regional workforce independence criterion to $160,000 (with a further $10,000 increase to the threshold for each additional child).

TechConnect comment

Individuals who are eligible for the Youth Allowance and satisfy the regional workforce independence criterion may benefit if their entitlement is affected by the Parental Income Test.

Newly arrived migrants

From 1 July 2018, the waiting period for newly arrived migrants will increase from three years to four years for certain welfare benefits.

TechConnect comment

The Newly Arrived Resident Waiting Period that applies to some working-age payments such as Newstart and Youth Allowance was to increase from two to three years from 1 July 2018 as part of the 2017/18 mid-year economic and fiscal outlook.

Carer Allowance – now means tested

The Government will introduce a $250,000 family income test threshold to the Carer Allowance payment. The Carer Allowance is currently not means tested. The stated purpose of this income test threshold is to help provide funding for new support services for unpaid carers.

TechConnect comment

The Carer Allowance of $127.10 per fortnight is available to people caring for someone with a disability, severe illness or is frail aged. The benefit is currently not means tested but the carer must satisfy residency tests and the care receiver must meet certain criteria.

The Carer Allowance can be paid in addition to means tested pensions such as the Age Pension and Carer Payment.

Currently, if a carer receives the Carer Allowance on 1 July they may also be eligible for a Carer Supplement of up to $600 pa. Affected carers who fail the income test under this proposal may stand to lose the Carer Allowance and the Carer Supplement.

Other miscellaneous changes to social security

The maximum payment suspension period available for Disability Support Pension recipients who are imprisoned will be reduced from two years to thirteen weeks.

Reforms will be made to ABSTUDY for secondary students.

Aged care

Additional high-level home care packages

The Government will create 14,000 additional high-level home care packages over the next four years. This follows the additional 6,000 high-level packages that were made available through the rebalancing of the mix of home care packages as part of the 2017/18 mid-year economic and fiscal outlook.

The Government estimates that by 2021/22, over 74,000 high-level home care packages will be available which represents an increase of 86% on 2017/18.

TechConnect comment

There are four levels of home care packages ranging from basic care needs (level 1) through to high-level care needs (level 4). The *Legislated Review of Aged Care 2017* identified a shortage of high-level packages meaning many who would be eligible are either waiting for an appropriate package or are receiving a package that does not meet their needs.

Additional residential aged care places

The Government will release 13,500 residential aged care places and 775 short-term restorative care places. They plan to do this by providing $60 million of capital to prospective and existing approved aged care providers who successfully apply for the assistance through the Aged Care Approvals Round. The Government will also provide funding to support additional residential aged care places and home care packages in remote indigenous communities.

TechConnect comment

The additional 13,500 residential aged care places represent a 36% increase in the number of additional places being made available compared to the 2016/17 year when 9,911 additional places were made available nationally. This reflects a growing demand for aged care services.

The Government's 'My Aged Care' website will be upgraded

The Government will provide funding of $61.7 million over the 2018/19 and 2019/20 financial years to make its 'My Aged Care' website more user-friendly and simplify assessment forms for people to access aged care services.

TechConnect comment

The 'My Aged Care' website provides useful information on Government subsidised care assistance including residential aged care, home care packages and the Commonwealth Home Support Programme Home Care Package. The website helps people find local service providers and provides information on costs and the application process.

The Government will combine Residential Care and Home Care programs

From 1 July 2018, the Government will combine the Residential Care and Home Care programs. This will provide greater flexibility in the mix of home care and residential aged care places.

For more information please contact us.

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