



FINANCIAL PLANNING  
ASSOCIATION *of* AUSTRALIA

# BUDGET WRAP

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2018

# Overview

The 2018-19 Federal Budget, handed down by the Treasurer tonight focused more on minor adjustments than sweeping reforms. It is a Budget designed to create short sharp election headlines, but there are also lots of measures which will support financial planners to assist and improve their clients' financial positions.

One of the more significant announcements is the Government's resolve to reduce personal income tax over stages starting with tax relief for low and middle income earners from 1 July 2018 and culminating in the elimination of the 37 per cent tax bracket (and increasing the lower threshold of the top tax bracket) from 1 July 2024.

Some of the main insights from tonight's Budget include:

- Tax reductions for low and middle income earners
- Making the tax system easier over the coming years by reducing tax brackets
- Reduction in fees and a ban on exit fees on all super funds.
- Opt-in insurance for young and low super balance Australians
- Increasing SMSF members from 4 to 6
- Super trustees will need to build new retirement income options for their members
- Expanding the pension loan scheme to all older Australians.
- Additional funding for regulators.

# Personal Income Tax

## The tax rates for 2018-19

From 1 July 2018, the Government will increase the top threshold of the 32.5 percent personal income tax bracket from \$87,000 to \$90,000.

Taxable Income	Tax Payable / Marginal Rate
Up to \$18,200	Nil
\$18,201 - \$37,000	Nil + 19% of each dollar over \$18,200
\$37,001 - <del>\$87,000</del> \$90,000	\$3,572 + 32.5% of each dollar over \$37,000
<del>\$87,001</del> \$90,000 - \$180,000	<del>\$19,822</del> \$20,796 + 37% of each dollar over <del>\$87,000</del> \$90,000
Over \$180,000	<del>\$54,232</del> \$54,096 + 45% of each dollar over \$180,000

## Medicare Levy low-income threshold for families

The Government will increase the Medicare Levy low-income threshold for singles, families and single seniors and pensioners from 2017-18 income year.

- The threshold for singles will be increased from \$21,655 to \$21,980.
- The family threshold will be increased from \$36,541 to \$37,089.
- For single seniors and pensioners, the threshold will be increased from \$34,244 to \$34,758.
- The family threshold for seniors and pensioners will be increased from \$47,670 to \$48,385.
- For each dependent child or student, the family income thresholds increase by a further \$3,406, instead of the previous amount of \$3,356.

## Personal Income Tax — income tax exemption for certain Veteran Payments

Veteran Payments and supplementary amounts (such as pension supplement, rent assistance and remote area allowance) of Veteran Payment paid to a veteran, and full payments (including the supplementary component) made to the spouse or partner of a veteran who dies, are exempt from income tax.

This measure takes effect from 1 May 2018.

## Personal Income Tax — retaining the Medicare levy rate at 2 per cent

The Medicare levy rate will no longer be increased from 2.0 to 2.5 per cent of taxable income from 1 July 2019.

## Personal Income Tax Plan

The Government will introduce a seven-year Personal Income Tax Plan over three stages.

### **Step 1: Targeted tax relief to low and middle income earners**

A Low and Middle Income Tax Offset will be introduced. The offset is:

- a non-refundable tax offset
- of up to \$530 per annum
- available to Australian resident low and middle income taxpayers
- available for the 2018-19, 2019-20, 2020-21 and 2021-22 income years
- received as a lump sum on assessment after an individual lodges their tax return.

The offset will provide a benefit of:

- up to \$200 for taxpayers with taxable income of \$37,000 or less
- the value of the offset will increase at a rate of three cents per dollar to the maximum benefit of \$530, for taxpayers with taxable income between \$37,000 and \$48,000
- the maximum benefit of \$530 for taxpayers with taxable incomes from \$48,000 to \$90,000
- the offset will phase out at a rate of 1.5 cents per dollar for taxpayers with taxable incomes from \$90,001 to \$125,333.

The benefit of the offset is in addition to the existing Low Income Tax Offset (LITO).

<b>Taxable Income</b>	<b>Offset benefit</b>
< \$37,000	\$200
\$37,000 - \$48,000	\$200 increase at 0.03 per dollar to a maximum of \$530
\$48,000 - \$90,000	\$530
\$90,001 - \$125,333	phase out at 1.5% per dollar

### **Step 2: Protecting middle income Australians from bracket creep**

The top threshold of 32.5 per cent personal income tax bracket will be increased from \$87,000 to \$90,000.

This measure takes effect from 1 July 2018.

Other measures include:

- LITO will be increased from \$445 to \$645 (and withdrawn at a rate of 6.5 cents per dollar between incomes of \$37,000 and \$41,000, and at a rate of 1.5 cents per dollar between incomes of \$41,000 and \$66,667)
- 19 per cent personal income tax bracket will be extended from \$37,000 to \$41,000
- top threshold of the 32.5 per cent personal income tax bracket will be increased from \$90,000 to \$120,000.

These measures take effect from 1 July 2022.

### **Step 3: Ensuring Australians pay less tax by making the system simpler**

The 37 per cent tax bracket will be removed entirely:

- top threshold of 32.5 per cent personal income tax bracket will be increased from \$120,000 to \$200,000.
- Taxpayers will pay the top marginal tax rate of 45 per cent from taxable incomes exceeding \$200,000 and the 32.5 per cent tax bracket will apply to taxable incomes of \$41,001 to \$200,000.

These measures take effect from 1 July 2024.

## **Tax**

### **Enhancing the integrity of concessions in relation to partnerships**

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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 capital gains tax (CGT) concessions in relation to these rights.

This measure will take effect from 7:30PM (AEST) on 8 May 2018.

### **Extending anti-avoidance rules for circular trust distributions**

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Anti-avoidance measures will be extended to family trusts engaging in 'round robin' arrangements whereby the trusts act as beneficiaries of each other and the distribution is ultimately returned to the original trustee tax free.

This measure will apply from 1 July 2019.

### **Improving the taxation of testamentary trusts**

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Concessional tax rates for minors receiving income from testamentary trusts will be limited to income derived from assets that are transferred from the deceased estate or the proceeds of the disposal or investment of those assets. This is to prevent taxpayers from inappropriately obtaining the concession in respect of income on assets unrelated to the deceased estate into the testamentary trust.

This measure will apply from 1 July 2019.

### **Removing the capital gains discount at the trust level for Managed Investment Trusts and Attribution MITs**

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Managed Investment Trusts (MITs) and Attribution MITs (AMITs) will no longer be able to apply the 50 per cent capital gains discount at the trust level. This measure will prevent beneficiaries that are not entitled to the CGT discount in their own right from getting a benefit from the CGT discount being applied at the trust level. The measure will not stop the CGT discount applying in the hands of beneficiaries of a distribution from the trust.

This measure will apply from 1 July 2019.

## Deny deductions for vacant land

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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.

This measure will take effect from 1 July 2019.

## Company Tax - Improving the integrity of the tax treatment of concessional loans between tax exempt entities

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Where tax exempt entities become taxable after 8 May 2018, the Government will disallow tax deductions that arise on the repayment of the principal of a concessional loan.

Under this measure, concessional loans that are entered into by tax exempt entities that become taxable will be required to be valued as if they were originally entered into on commercial terms.

## Small business - Further extending the immediate deductibility threshold

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The \$20,000 instant asset write-off will be extended by a further 12 months to 30 June 2019 for businesses with aggregated annual turnover less than \$10 million.

Small businesses will be able to immediately deduct purchases of eligible assets costing less than \$20,000 first used or installed ready for use by 30 June 2019. Only a few assets are not eligible (such as horticultural plants and in-house software).

Assets valued at \$20,000 or more (which cannot be immediately deducted) can continue to be placed into the small business simplified depreciation pool (the pool) and depreciated at 15 per cent in the first income year and 30 per cent each income year thereafter. The pool can also be immediately deducted if the balance is less than \$20,000 over this period (including existing pools).

# Superannuation

## Capping passive fees, banning exit fees and reuniting small and inactive superannuation accounts

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There will be a three per cent annual cap on passive fees charged by superannuation funds on accounts with balances below \$6,000, and exit fees will be banned on all superannuation accounts.

In addition, all inactive superannuation accounts with balances below \$6,000 will need to be transferred to the ATO.

These changes will take effect from 1 July 2019.

## Changes to insurance in superannuation

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Insurance in superannuation will only be able to be offered on an opt-in basis for:

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

The changes will take effect on 1 July 2019. Affected superannuants will have a period of 14 months to decide whether they will opt-in to their existing cover or allow it to switch off.

### **Better integrity over deductions for personal contributions**

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Funding will be provided to the ATO to improve the integrity of the 'notice of intent' (NOI) processes for claiming personal superannuation contribution tax deductions. Currently, some individuals are claiming the deduction without submitting the NOI. As a result, no tax is paid on the contribution amount.

This measure will commence from 1 July 2018.

### **Increasing the maximum number of allowable members in self-managed superannuation funds and small APRA funds from four to six**

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The maximum number of members permitted in new and existing self-managed superannuation funds and small APRA funds will be increased from four to six.

This measure will commence from 1 July 2019.

### **Preventing inadvertent concessional cap breaches by certain employees**

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Individuals whose income exceeds \$263,157 and have multiple employers will be able to nominate that their wages from certain employers are not subject to the superannuation guarantee (SG) from 1 July 2018.

The measure will allow eligible individuals to avoid unintentionally breaching the \$25,000 annual concessional contributions cap as a result of multiple compulsory SG contributions.

This measure will commence from 1 July 2018.

### **Three-yearly audit cycle for some self-managed superannuation funds**

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Self-managed superannuation funds with a history of good record-keeping and compliance will be subject to a three-yearly audit requirement rather than an annual audit requirement.

This measure will start on 1 July 2019.

### **More Choices for a Longer Life – comprehensive income products in retirement**

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The superannuation law will be amended to introduce a retirement covenant that will require superannuation trustees to formulate a retirement income strategy for superannuation fund members.

The Government will also amend the Corporations Act 2001 to introduce a requirement for providers of retirement income products to report simplified, standardised metrics in product disclosure to assist customer decision making.

### **Treasury portfolio legislation**

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There will be technical amendments to the transition to retirement income stream rules relating to the death of a member and addressing double taxation in respect of deferred annuities purchased by a superannuation fund or retirement savings account.

### **More Choices for a Longer Life – work test exemption for recent retirees**

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The Government will introduce an exemption from the work test for voluntary contributions to superannuation, for people aged 65-74 with superannuation balances below \$300,000, in the first year that they do not meet the work test requirements.

This measure will take effect from 1 July 2019.

# Social Security

## More choices for a longer life – finances for a longer life

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- Increase the Pension Work Bonus from \$250 to \$300 per fortnight to allow pensioners to earn up to \$7,800 each year without impacting their pension;
- Extend the Pension Work Bonus to allow self-employed retirees to earn up to \$300 per fortnight without impacting their pension;
- Amend the pension means test rules to encourage the development and take-up of lifetime retirement income products that can help retirees manage the risk of outliving their savings; and
- Expand the Pension Loans Scheme to everyone over Age Pension age and to increase the maximum fortnightly income stream to 150 per cent of the Age Pension rate.

This measure commences on 1 July 2019.

## More Choices for a Longer Life – healthy ageing and high quality care

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The Government will implement new policies to support people to stay at home longer, remain healthy and independent for longer, and to improve access to high quality, safe aged care:

- additional 14,000 new high level home care packages over four years from 2018-19 in addition to the 6,000 high level packages delivered in the 2017-18 MYEFO;
- 13,500 residential aged care places and 775 short term restorative care places in the 2018-19 Aged Care Approvals Round will be released, with a \$60.0 million capital investment to support new places;
- combine the Residential Care and Home Care programs from 1 July 2018 to provide greater flexibility to respond to changes in demand for home care packages and residential aged care places.
- the Government will support preparatory work for a new national assessment framework for people seeking aged care;
- the Government will trial navigator services to assist people seeking information about aged care to make decisions that are right for them.

## More Choices for a Longer Life – jobs and skills for mature age Australians

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To support mature age Australians to adapt to the transitioning economy and develop the skills needed to remain in work, additional funding includes:

- targeted training to help mature age job seekers aged 45 years and over and who are registered with a jobactive provider to enhance employability, develop digital skills and identify opportunities in local labour markets;
- training funding of up to \$2,000 for workers aged 45 to 70 years to take up reskilling or upskilling opportunities, with the Government contribution to be matched by either the worker or their current employer;
- support mature age workers who are considering early retirement or who are retrenched to look at alternatives to remain in employment;
- additional Inclusive Entrepreneurship Facilitators for an increased focus on mature age people to promote entrepreneurship and new business opportunities and to provide business mentoring; and



- restructure the Employment Fund to allow additional wage subsidy places for mature age employees. In addition, the Government will work with business and community peak bodies to develop strategies that promote the benefits of a diverse workforce, influence hiring practices and reduce discrimination.

### **More Choices for a Longer Life – skills checkpoint for older workers program – establishment**

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The Government will establish the Skills Checkpoint for Older Workers program, which will support employees aged 45-70 to remain in the workforce.

From 1 September 2018, 5,000 employees each year would be entitled to receive customised career advice on transitioning into new roles, or their pathways to a new career, including referrals to relevant training options

### **National Disability Insurance Scheme – continuity of support**

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The Government will ensure continuity of support for people who are not eligible for the National Disability Insurance Scheme (NDIS), but are currently receiving support under programs that are transitioning to the NDIS.

Under the new continuity of support arrangements, eligible recipients will receive a level of support that is consistent with that which they currently receive.

### **Delivering Australia's Digital Future – Welfare Payment Infrastructure Transformation – Tranche Three**

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Tranche Three will transform the delivery of payments to jobseekers, older Australians, carers and people with disabilities by implementing more efficient and automated claim, assessment and payment processes.

## **Elder abuse**

### **More Choices for a Longer Life – protecting older Australians**

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The measure will support:

- expansion and evaluation of trials of three types of specialist support services: specialist elder abuse units located in legal services; health-justice partnerships; and family counselling and mediation services;
- an Elder Abuse Knowledge Hub;
- a National Prevalence Research scoping study; and
- the development of a National Plan to address elder abuse, to be agreed between the Commonwealth, States and Territories, in close consultation with industry and community groups.

The Government will also work with the States and Territories to develop a nationally consistent legal framework and establish a National Register of Enduring Powers of Attorney. Expenditure for this component has been provisioned in the Budget but is not for publication pending the outcome of negotiations with the States and Territories.

# Regulators

## Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

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The Government will provide \$10.6 million over two years from 2017-18 to the Australian Securities and Investments Commission (ASIC) and \$2.7 million in 2018-19 to the Australian Prudential Regulation Authority (APRA) to assist in their involvement in the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

The cost of this measure will be offset by an increase in the APRA Financial Institutions Supervisory Levies of \$2.7 million in 2018-19 and an increase in levies of \$10.6 million over two years from 2018-19 under the ASIC industry funding model.

Funding of \$5.9 million for ASIC in 2017-18 has already been provided for by the Government.

## Tax Practitioners Board – funding

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The Government will provide \$20.1 million over four years from 2018-19 to the Tax Practitioners Board (TPB) to assist the TPB in meeting its broadened responsibilities to ensure that tax agent services are provided to the public in accordance with appropriate professional and ethical standards.

This measure will be funded by an increase in tax practitioner registration fees.

## Enhancing Female Financial Capability

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The Government will provide \$10.0 million to the Australian Securities and Investments Commission in 2018-19 to provide a grant that will support initiatives to enhance female financial capability.

## Delivering Australia's Digital Future – modernising business registers

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The Government will provide an additional \$19.3 million in 2018-19 to the Australian Taxation Office, the Department of Industry, Innovation and Science and the Australian Securities and Investments Commission to develop a detailed business case for modernising the Government's business registers. The detailed business case will provide options for improving how businesses interact with government, and will be considered in the 2019-20 Budget.

## Australian Financial Complaints Authority – additional funding

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The Government will provide \$1.7 million in 2018-19 to provide a grant to the Australian Financial Complaints Authority (AFCA) to support its establishment.

## Personal Income Tax – ensuring individuals meet their tax obligations

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The Government will provide \$130.8 million to the ATO from 1 July 2018 to increase compliance activities targeting individual taxpayers and their tax agents.

The measure will also provide funding for new compliance activities, including additional audits and prosecutions, improving education and guidance materials, pre-filing of income tax returns and improving real time messaging to tax agents and individual taxpayers to deter over-claiming of entitlements, such as deductions by higher risk taxpayers and their agents.

## Modernising Payroll and Superannuation Fund Reporting – additional funding

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The Government will provide an additional \$15.0 million over three years from 2018-19 to the Australian Taxation Office to support the modernisation of payroll and superannuation fund reporting. The funding will be used to support small businesses with fewer than 20 employees during the transition to Single Touch Payroll Reporting from 1 July 2019.

Funding for this measure has already been provided for by the Government. This measure builds on the 2017-18 MYEFO measure titled Superannuation Guarantee Integrity Package – modernising payroll and superannuation fund reporting.

## National Consumer Data Right

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The Government will provide funding over four years from 2018-19 to establish a national consumer data right (CDR) that will allow consumers and small to medium enterprises to access and transfer their data between service providers in designated sectors. Funding will be given to the ACCC, Office of the Australian Information Commissioner, and the CSIRO.

**For further information on the 2018 Federal Budget measures, please visit [www.budget.gov.au](http://www.budget.gov.au).**



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