

# 2018 Federal Budget Summary

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## Introduction

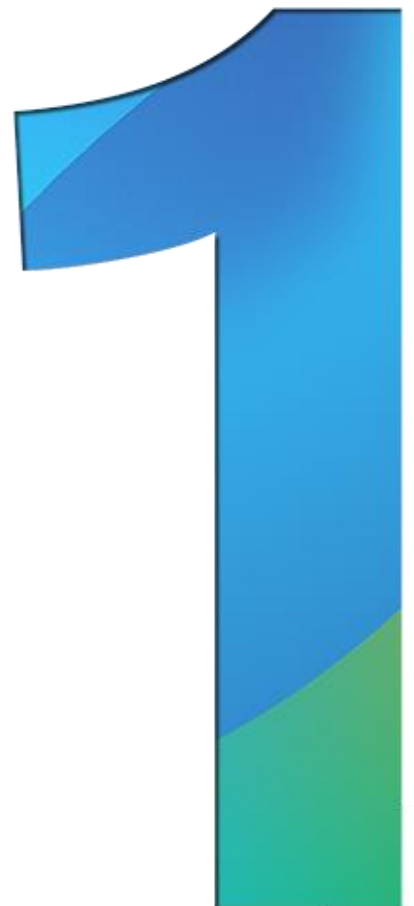
The following paper provides a summary of information announced in the 2018 Federal Budget which may be of interest to financial advisers and their clients.

**Please note that many of these announcements are subject to being legislated, and so care should be taken before implementing a financial strategy based on Budget announcements alone.**

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# Taxation



## Personal income tax

### Low and Middle Income Tax Offset

From 1 July 2018, the Government will introduce the Low and Middle Income Tax Offset, a non-refundable tax offset of up to \$530 per annum to Australian resident low and middle-income taxpayers.

The offset will be available for the 2018-19, 2019-20, 2020-21 and 2021-22 income years and will be received as a lump sum on assessment after an individual lodges their tax return.

The Low and Middle Income Tax Offset will provide a benefit of up to \$200 for taxpayers with taxable income of \$37,000 or less. Between \$37,000 and \$48,000, the value of the offset will increase at a rate of three cents per dollar to the maximum benefit of \$530.

Taxpayers with taxable incomes from \$48,000 to \$90,000 will be eligible for the maximum benefit of \$530. From \$90,001 to \$125,333 the offset will phase out at a rate of 1.5 cents per dollar.

The benefit of the Low and Middle Income Tax Offset is in addition to the existing Low Income Tax Offset.

### Reducing bracket creep

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

From 1 July 2022, the Government will increase the Low Income Tax Offset from \$445 to \$645 and extend the 19% personal income tax bracket from \$37,000 to \$41,000.

The increased Low Income Tax Offset will reduce at the rate of 6.5 cents per dollar between income thresholds of \$37,000 and \$41,000, and at a rate of 1.5 cents per dollar between income thresholds of \$41,000 and \$66,667, from which point this offset is not available.

From 1 July 2022, the Government will further increase the top threshold of the 32.5% personal income tax bracket from \$90,000 to \$120,000.

### Removal of the 37% tax bracket

From 1 July 2024, the Government will extend the top threshold of the 32.5% personal income tax bracket from \$120,000 to \$200,000 to recognise inflation and wage growth impacts, thereby removing the 37% tax bracket entirely.

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## Taxation

The 32.5% tax bracket will apply to taxable incomes of \$41,001 to \$200,000. Taxpayers will pay the top marginal tax rate of 45% on taxable incomes exceeding \$200,000.

### Proposed personal tax rates and thresholds:

Tax rate	Income range			
	Current thresholds	Thresholds from 1 July 2018	Thresholds from 1 July 2022	Thresholds from 1 July 2024
0%	\$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	N/A
45%	\$180,001 +	\$180,001 +	\$180,001 +	\$200,001 +
Low and Middle Income Tax Offset	N/A	Up to \$530	N/A	N/A
Low Income Tax Offset	Up to \$445	Up to \$445	Up to \$645	Up to \$645

## Increasing the Medicare levy low income thresholds

The Medicare levy low income thresholds will be increased for singles, families, and seniors and pensioners from the 2017-18 income year. The increases take account of recent movements in the CPI so that low income taxpayers generally continue to be exempted from paying the Medicare levy.

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.

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## Retaining the Medicare levy rate at 2%

The Medicare levy rate will no longer be increased from 2.0% to 2.5% of taxable income from 1 July 2019 as previously announced.

## Denial of deductions for vacant land

From 1 July 2019, the Government will deny deductions for expenses associated with holding vacant land.

This is intended 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.

It will also reduce tax incentives for land banking which denies the use of land for housing or other development.

Denied deductions will not be able to be carried forward for use in later income years.

Expenses for which deductions will be denied that would ordinarily be a cost base element, such as borrowing expenses and council rates, may be included in the cost base of the asset for capital gains tax (CGT) purposes when sold.

However, denied deductions for expenses that would not ordinarily be a cost base element would not be able to be included in the cost base of the asset for CGT purposes.

This measure will not apply to expenses associated with holding land that are incurred after:

- a property has been constructed on the land, 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 a business of primary production.

This measure will apply to land held for residential or commercial purposes. However, the 'carrying on a business' test will generally exclude land held for commercial development.

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## Income tax exemption for certain Veteran Payments

From 1 May 2018, the Government exempted certain Veteran Payments from income tax.

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

## Investment and business entities

### Integrity of concessions in relation to partnerships

From 7:30PM (AEST) on 8 May 2018, a partner of a partnership who alienates their income by creating, assigning or otherwise dealing in rights to the future income of the partnership will no longer be able to access the small business capital gains tax (CGT) concessions in relation to those rights.

### Distributions to minors from testamentary trusts

From 1 July 2019, the concessional tax rates available 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.

Currently, income received by minors from testamentary trusts is taxed at normal adult rates rather than the higher tax rates that generally apply to minors.

Some taxpayers have been obtaining the benefit of this lower tax rate by injecting assets unrelated to the deceased estate into the testamentary trust.

This measure will clarify that minors will be taxed at adult marginal tax rates only in respect of income a testamentary trust generates from assets of the deceased estate or the proceeds of the disposal or investment of those assets.

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## Extending the instant asset write-off

The Government will extend the \$20,000 accelerated depreciation for small businesses by a further 12 months to 30 June 2019 for businesses with aggregated annual turnover of less than \$10 million (also known as the '\$20,000 instant asset write-off').

Small businesses will be able to immediately deduct purchases of eligible assets costing less than \$20,000 that are first used or installed ready for use by 30 June 2019. Note that certain assets are not eligible for this deduction, including 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 and depreciated at 15% in the first income year and 30% in 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.

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# Superannuation



## Contributions

### Inadvertent concessional contribution cap breaches

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

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

Breaching the cap currently results in these individuals being liable to pay excess contributions tax, as well as a shortfall interest charge. Employees who use this measure could instead seek to negotiate to receive additional income which would be taxed at marginal tax rates.

### Work test exemption for recent retirees

From 1 July 2019, an exemption from the work test for voluntary contributions to superannuation will be available for people aged 65-74 with a total superannuation balance of below \$300,000 in the first year that they do not meet the work test requirements.

Currently, due to the work test, individuals aged 65-74 can only make voluntary superannuation contributions if they work a minimum of 40 hours in any 30-day period in the financial year.

Existing annual concessional and non-concessional caps will continue to apply to the contributions permitted by the exemption, and individuals will also continue to be able to use the existing concessional cap carry forward rules which may permit concessional contributions of more than \$25,000 a year.

## Retirement incomes

### Retirement income covenant

The Government will introduce a 'retirement income covenant' into superannuation legislation, requiring superannuation trustees to develop a strategy aimed at helping members of the fund achieve their retirement income objectives.

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## Superannuation

The covenant would require trustees to offer Comprehensive Income Products for Retirement (CIPRs, also proposed to be known as 'MyRetirement products'): products that provide individuals income for life, no matter how long they live. The legislative framework and requirements for CIPRs are yet to be finalised.

Members will not be required to take up CIPRs at retirement.

### Means testing for lifetime products

From 1 July 2019, new Age Pension means testing rules will be introduced for pooled lifetime income streams purchased on or after 1 July 2019.

These rules will assess:

- a fixed 60% of all pooled lifetime product payments as income, and
- 60% of the purchase price of the product as an asset until the age of 84 or a minimum of five years, and then 30% of the purchase price of the product as an asset for the rest of the person's life.

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

## Self-managed superannuation funds

### Increasing member numbers in SMSFs and small APRA funds

From 1 July 2019, the maximum number of allowable members in new and existing self-managed superannuation funds and small APRA funds will increase from four to six.

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

From 1 July 2019, the annual audit requirement will change to a three-yearly requirement for self-managed superannuation funds (SMSFs) with a history of good record-keeping and compliance.

This measure will reduce red tape for SMSF trustees that have a history of three consecutive years of clear audit reports and that have lodged the fund's annual returns in a timely manner.

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## Other changes

### Small and inactive superannuation accounts

From 1 July 2019, the Government will require the transfer of all inactive superannuation accounts where the balances are below \$6,000 to the ATO. The ATO will expand its data matching processes to proactively reunite these inactive superannuation accounts with the member's active account, where possible.

### Capping passive fees and banning exit fees

From 1 July 2019, a 3% annual cap on passive fees charged by superannuation funds on accounts with balances below \$6,000 and a ban on exit fees on all superannuation accounts will be introduced.

### Changes to insurance in superannuation

From 1 July 2019, insurance within superannuation will move from a default framework 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
- members whose accounts have not received a contribution in 13 months and are inactive.

These changes are aimed at protecting the retirement savings of young people and those with low balances by reducing erosion of superannuation through premium payments and reducing duplicated covers.

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.

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# Social security



## Pension Work Bonuses

From 1 July 2019, the Government will increase the Pension Work Bonus from \$250 to \$300 per fortnight to allow single individuals to earn up to \$7,800 each year without impacting their pension. This means that the first \$300 of income from work each fortnight will not count towards the pension Income Test.

This is in addition to the income free area, which is currently \$168 per fortnight for a single pensioner and \$300 a fortnight (combined) for a pensioner couple.

As a result, an eligible single person with no other income will be able to earn up to \$468 per fortnight from work and still receive the maximum rate of Age Pension under the Income Test.

Pensioners will also continue to accrue unused amounts of the fortnightly Work Bonus which can exempt future earnings from the Income Test. The maximum accrual amount will increase to \$7,800.

The Government is also extending eligibility for the Work Bonus to earnings from self-employment. This means that a pensioner can earn \$7,800 per year through self-employment without impacting their pension.

To ensure that the Work Bonus only applies to actual engagement in gainful work, there will be a "personal exertion" test applied to ensure that the Work Bonus does not apply to income associated with returns on financial or real estate investments.

## Pension Loans Scheme

From 1 July 2019, the Pension Loans Scheme (PLS - the Government sanctioned reverse mortgage scheme) will increase the maximum allowable combined Age Pension and PLS income stream to 150% of the Age Pension Rate. The scheme eligibility will be expanded to all Australians of Age Pension age.

Full rate pensioners will be able to boost their income by up to \$11,799 (singles) or \$17,787 (couples) per year by unlocking equity in their home.

The current Pension Loan Scheme interest rate of 5.25% p.a. will continue to apply to existing and new loans.

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