LOGICAL THOUGHTS

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MAY 2018

# 2018 Budget Summary

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No big surprises on the budget handed down on Tuesday night. Maybe the biggest surprise was that the proposals seem quite sensible and reasonable!

Last year the focus was all about super, this year's budget saw a focus on seniors, via Centrelink, Home Care and Aged Care changes, as well as tax cuts.

The following summarises some of the main proposals we see affecting our clients. Remember that the proposals are not yet law. Some may never become law and others will be altered on their way through the process.

## Social Security

- **Means testing concessions for certain lifetime retirement products** *(Proposed effective date: 1 July 2019)* – This will provide Income and Assets Test concessions for money invested in new lifetime retirement income stream products. It is proposed that only 60% of income will count towards the Income Test and 60% of the purchase price will count towards the Assets Test. After age 84, or after it has been held for 5 years, then only 30% will be assessed as an asset.
- **Pension Loan Scheme expansion** *(Proposed effective date: 1 July 2019)* - Proposals to expand the Government's Pension Loan Scheme may help retirees to turn equity in their home into a regular income stream. This income could be used to meet living expenses or pay for services such as private home care. The current scheme allows part-pensioners and some self-funded retirees to top-up the amount of age pension they receive to the maximum available pension. The proposal will allow people on the full Age Pension to be eligible for the scheme, allowing them to borrow up to 50% of the full Age Pension rate.
- **Work Bonus increase** *(Proposed effective date: 1 July 2019)* – The Work Bonus allows pensioners to earn employment income without it impacting on their Age Pension. The amount of exempt income is proposed to increase from $250 to $300 per fortnight.
- **Home care packages** - Demand for government-funded home care packages is increasing, with around 105,000 people currently waiting in the National Queue for a suitable package to be allocated, and some waiting as long as 12 months to receive a package. This Budget announced an additional 14,000 packages over four years from 1 July 2018.
- **Carers Allowance means testing** *(Proposed effective date: 20 September 2018)* – Where a carer's family income is over $250,000pa, the carer will no longer qualify for Carer's Allowance. This will only affect around 1% of carers and will help fund proposed new services to support carers.
- **Centrelink call centre** - Anyone who has dealt with Centrelink will know the frustration of long call waiting times and computer system errors. The government aims to implement improvements through an allocation of $50 million over 2018/19 to reduce call wait times and increased funding to improve computer systems. About time!

# Taxation

- **Low and Middle Income Tax Offset (LAMITO)** *(Proposed effective date: 1 July 2018)* – A new temporary offset to be introduced for 4 years. This will provide an offset starting at $200 and increasing to $530 at an income of $90,000. It will then taper down and reduce to nil at an income of $130,000. This will increase the amount of income that can be earnt tax free for an individual from $20,540pa to $21,594pa.

- **Tax bracket changes** – The proposed changes are: from 1 July 2018 the upper threshold is to change from $87,000 to $90,000; from 1 July 2022, the upper threshold for the 19% tax bracket to change to $41,000 and the 32.5% upper threshold to $120,000; from 1 July 2024/25 the 37% tax bracket abolished and the upper threshold on the 32.5% tax bracket to change to $200,000. These changes are summarised in the table below.

| Marginal Tax Rate | 2018/19 to 2021/22 | 2022/23 and 2023/24 | 2024/25 onwards |
|---|---|---|---|
| **Nil** | $18,200 or less | $18,200 or less | $18,200 or less |
| **19%** | $18,201 - $37,000 | $18,201 - $41,000 | $18,201 - $41,000 |
| **32.5%** | $37,001 - $90,000 | $41,001 - $120,000 | $41,001 - $200,000 |
| **37%** | $90,001 - $180,000 | $120,001 - $180,000 | Abolished |
| **45%** | $180,001+ | $180,001+ | $200,001+ |

If fully implemented (and let's face it that's 6 years away, so chances of these cuts getting through the legislative process unchanged is slim!), the tax savings are considerable. The following gives an indication of the tax savings by comparing the tax that would be payable under current tax rates to the 2024/25 tax rates:

- $405pa on an income of $40,000
- $540pa for incomes between $50,000 and $80,000
- $1,125pa on an income of $100,000
- $3,375pa on an income of $150,000
- $7,225pa for incomes above $200,000.

- **Medicare levy** (*Immediate*)– In the 2017 budget this was proposed to increase to 2.5%, but the increase has been abolished and will remain at 2.0%.

- **Vacant land costs not tax deductible** *(Proposed effective date: 1 July 2019)* - Tax deductions will not be able to be claimed for expenses relating to vacant land. Certain costs will be able to be added to the cost base for CGT purposes.

- **Testamentary Trusts** *(Proposed effective date: 1 July 2019)* - Minors who receive income from a testamentary trust are taxed at adult rates. A change is proposed to ensure the adult rates only apply to income that is directly from assets of the deceased estate and not from any other assets injected into the trust.

## Superannuation

- **Work test flexibility** *(Proposed effective date: 1 July 2019)* – For people aged 65 to 74 with a super balance of under $300,000, voluntary contributions will be allowed in the following financial year after they cease meeting the work test. For example, if someone aged 67 were to retire in August 2019, under current rules they could make super contributions for the remainder of that financial year until 30 June 2020. Under the proposed rules they will be able to make contributions until 20 June 2021.
- **Protecting low super balances** *(Proposed effective date: 1 July 2019)* – A fee cap of 3%pa for account balances of less than $6,000 is proposed. In addition, individuals under age 25 with a super account where the balance is less than $6,000 and has been inactive for 13 months, will have to opt-in to keep any insurances in place.
- **SMSF membership increase** *(Proposed effective date: 1 July 2019)* – Currently the maximum number of members is limited to 4, but the Government is looking at extending this to 6 members. This would allow a greater number of 'mum and dad' SMSF's to include their children in the fund. Under current rules each member must be a trustee (or director of a company trustee), so it could make decision making and administration a little trickier. When adding new members, particularly younger ones, it also means that the investment strategy, asset allocation and personal insurance needs of each member will need to be reviewed.
- **SMSF audit streamlining** *(Proposed effective date: 1 July 2019)* – If an SMSF has had 3 years of clean audits, then it could be put on a 3-year audit term.
- **Opting out of SG for high income earners** *(Proposed effective date: 1 July 2018)* – If a person has multiple employers and their employer SG contributions exceed the concessional contribution cap, they will be able to opt out of receiving SG from certain employers. Anyone who this may apply to will need to be careful that they negotiate with their employer a higher take home pay to compensate the loss of SG, ensuring their total salary package is not reduced.

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Get in Touch

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