Avant's 2018 -2019 Federal Budget Summary

..... and what it means to you.

AVANT
FINANCIAL SERVICES

www.avantfinancial.com.au

Overview

The Hon Scott Morrison MP handed down his third Federal Budget on the 8th of May 2018.

Pleasingly, superannuation has again largely been left alone. The Budget instead focused on a seven year tax plan. Low to middle income earners with an income up to $90,000 will receive a $530 tax offset from 1 July 2018. The offset will start to reduce and will cut out when income reaches $125,333.

Personal marginal tax rates will gradually alter to the following:

Current 2017/18 Tax Rates	
Income Range	**Tax Rates**
<$18,200	0%
$18,201 - $37,000	$0 + 19% over $18,200
$37,001 - $87,000	$3,572 + 32.5% over $37,000
$87,001 - $180,000	$19,822 + 37% over $87,000
$180,000+	$54,232 + 47% over $180,000

Proposed 2024/25 Tax Rates	
Income Range	**Tax Rates**
<$18,200	0%
$18,201 - $41,000	$0 + 19% over $18,200
$41,001 - $200,000	$4,332 + 32.5% over $41,000
$200,001 +	$56,007 + 47% over $200,000

The Budget is clearly designed as a sweetener for the next Federal Election which could be held at any time, barring a double dissolution, from 4 August 2018. There is something for most people in the 2018 Budget, however for some, they may take a little while before they flow through.

Please note, all the announcements still need to pass through Parliament; until then they can be viewed as merely a statement of intent. In addition, the devil is always in the detail, and the details aren't yet fully known.

Contents

Superannuation & Pensions

Work test exemption for retirees

From 1 July 2019, people aged 65 to 74 that have a total superannuation balance of under $300,000 will be able to make voluntary contributions into superannuation in the first year that they do not meet the work test requirements.

COMMENT: This merely gives some people more time to make contributions to super after they have finished working.

Preventing inadvertent concessional cap breaches

From 1 July 2018, people with an income in excess of $263,157, and who have multiple employers, will be able to nominate that their wages from certain employers are not subject the superannuation guarantee (SG).

COMMENT: The intent is to allow individuals to avoid unintentionally breaching the $25,000 concessional contributions cap. In this case, the employee will be able to negotiate to receive additional salary and wages to make up for the lost SG contributions. It is unclear whether the eligible amount is just the excess of $263,157, or the entire salary from a second/third employer.

Changes to insurance in superannuation

From 1 July 2019, insurance within superannuation will move from an automatic cover framework to an 'opt-in' basis for the following people:

- Super balances of less than $6,000
- Under the age of 25 years
- Inactive accounts which have not received a contribution for 13 months.

COMMENT: This is positive and I have long argued that all life insurances within superannuation should be opt-in rather than automatic.

Capping fees, banning exit fees & automatic consolidation

From 1 July 2019, the government will introduce a 3% p/a maximum fee on superannuation balances below $6,000. Exit fees will be banned on all superannuation accounts. All inactive accounts less than $6,000 will be transferred to the ATO, who will then use data matching to combine into member's active accounts where possible.

COMMENT: In my opinion, 3% is far too much for a super fund to be paying regardless of whether the balance is under or over $6,000. The ban on exit fees is to be welcomed.

SMSF membership increasing to six

From 1 July 2019, the government will amend the definition of Self-Managed Superannuation Funds (SMSFs) in the SIS Act to increase the number of allowable members in new and existing funds from four to six.

COMMENT: It is unlikely this will gain much traction as only about 7% of SMSFs have more than two members, however it may benefit larger families to structure themselves into a single fund.

Three year audit cycle for SMSFs

From 1 July 2019, the government will allow some SMSFs to move from an annual audit to a three-yearly audit.

COMMENT: This is a good development and should allow some SMSFs to save money. The risk is that any compliance breaches that do occur may not be picked up for three years, which may make them harder and more costly to rectify.

Taxation

Seven year personal income tax plan

The Government is introducing a seven year Personal Income Tax Plan.

The first step will provide permanent tax relief to low and middle-income earners to help with the cost of living pressures.

The second step will provide relief from bracket creep by increasing the threshold of the 32.5 per cent personal income tax bracket.

The third step will simplify and flatten the system by removing the 37 per cent personal income tax bracket.

Step 1: 2018-19 to 2021-22

- Introduction of a Low and Middle Income Tax Offset of up to $530pa, in addition to Low Income Tax Offset (LITO), from 2018-19 to 2021-22

- Extend the top threshold for the 32.5% personal income tax bracket from $87,000 to $90,000

Step 2: 2022-23 to 2023-24

- Extend the top threshold for the 19% personal income tax bracket from $37,000 to $41,000
- Extend the top threshold for the 32.5% personal income tax bracket from $90,000 to $120,000
- Increase LITO from $445 to $645

Step 3: 2024-25 and later financial years

- Removal of the 37% personal income tax bracket
- Extend the top threshold for the 32.5% personal income tax bracket from $120,000 to $200,000

Retaining the medicare levy at 2 per cent

From 1 July 2019, the government will not increase the Medicare Levy rate from 2 to 2.5 per cent of taxable income as legislated to commence from 1 July 2019. Consequential changes to other tax rates linked to the top personal tax rate such as the fringe benefits tax rate, will also not proceed.

Deductions denied for vacant land

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

Small Business

Small business asset write-off

The Government will extend the existing $20,000 instant asset write-off by a further 12 months to 30 June 2019 . Businesses with a turnover of less than $10 million will be able to immediately write off depreciating assets up to $20,000.

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 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).

Social Security

Increase to Pension Work Bonus

An expanded Pension Work Bonus will allow age pensioners to earn up to $300 per fortnight, an increase of $50 per fortnight from the existing $250, without reducing their pension payments. Therefore, a single person with no other income will be able to earn up to $468 per fortnight from work and retain eligibility for the full Age Pension.

The Bonus will also be extended to self-employed individuals, who will now be able to earn up to $7,800 per year without reducing their pension payments.

Pension Loan Scheme

The Pension Loans Scheme is a voluntary reverse mortgage provided by Centrelink. Under current rules, the scheme allows clients to “top-up” their age pension up to the maximum rate where they receive a part pension due to the income or asset test, or do not receive an age pension under either the income or assets test (but not both). The amount of “top-up” payments are a loan secured against Australian real estate which must be repaid when the property is sold or the client passes away.

From 1 July 2019, the Government will expand the scheme by:

- extending eligibility to all clients of age pension age including maximum rate age pensioners, and
- increasing the maximum amount of “top-up” payments from 100% to 150% of the maximum rate of age pension.

Maximum rate age pensioners will be able to increase their income by up to $11,799 (singles) or $17,787 (couples) per year.

AVANT
FINANCIAL SERVICES

Material contained in this publication is an overview or summary only and it should not be considered a comprehensive statement on any matter or relied upon as such. This information may contain material provided by third parties derived from sources believed to be accurate at its issue date.

Suite 6, 37-39 Railway Parade,
Mount Lawley, WA 6050

PO Box 585, Maylands, WA 6931

08 6143 3792

08 6555 8181

admin@avantfinancial.com.au

www.avantfinancial.com.au