Hub Wealth Management 2018 Federal Budget Analysis

8 May 2018

The Hub Wealth budget summary focuses on issues of most relevance to our clients. This includes superannuation, retirement incomes, investment, tax, aged care, social security and the broader economic outlook. As always, these are only proposals. Already, it is clear that there will be an impasse on the tax measures, as the Government tries to include short and long-term measures in one legislative package. Company tax reduction legislation is still also to be passed.

Summary of Budget Measures

From 1 July 2018

Low and middle income earners are to benefit from tax savings of up to $530 per person (or $1,060 per couple) through a new tax offset.

The Medicare Levy will remain at 2%, instead of the planned 2.5%.

The $20,000 instant asset write-off for business with aggregate turnover less than $10m will be extended until 30 June 2019.

Funding for home care services and residential aged care will increase.

From 1 July 2019

A one year exemption from the 'work test' will apply to recent retirees who have less than $300,000 in total super savings.

Life insurance can only be offered in super on an 'opt-in basis' to new members under 25 years of age or members with inactive accounts or an account balance under $6,000.

Fees when exiting a super fund will be banned and administration/investment fees will be capped at 3% pa on accounts with balances of less than $6,000.

The ATO will work to proactively reunite Australians' dormant superannuation funds with their active account, with inactive balances less than $6,000 to be transferred to the ATO.

The Pension Loans Scheme will be available to all Australians over Age Pension age and the maximum payments will increase to 150% of the full Age Pension.

Opportunities post 1 July 2018

There are some key opportunities announced in previous Federal Budgets that are already legislated to take effect on 1 July 2018. These include:

- People aged 65 or over can make 'downsizer' super contributions of up to $300,000 from the proceeds of selling their home, regardless of super account balance.
- First home buyers who have made super contributions under the First Home Super Saver Scheme can access their money for eligible property purchases.
- Where the annual concessional contribution cap is not fully utilised, it may be possible to accrue unused amounts for use in subsequent financial years.

Further information on these opportunities can found later in this summary.

Taxation

Personal income tax savings

Date of effect: From 1 July 2018
Low and middle income earners will benefit from tax savings of up to $530 per person (or $1,060 per couple), via a series of changes to be implemented over seven years.

Personal income tax thresholds

The income threshold at which the 32.5% marginal tax rate applies will progressively increase to $200,000 by 1 July 2024.

Table 1: Personal tax rates and thresholds

Tax rate (excluding Medicare)	2017/18 income thresholds	Proposed income thresholds		
		From 1/7/2018	From 1/7/2022	From 1/7/2024
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	Not applicable
45%	> $180,000	> $180,000	> $180,000	> $200,000

Personal tax offsets

A Low and Middle Income Earners Tax Offset of up to $530 will apply from 1 July 2018 to 30 June 2022. From 1 July 2022, the Low Income Tax Offset will increase from $445 to $645.

Personal tax savings

Table 2 below illustrates the tax payable in future financial years (and the potential tax savings compared to 2017/18) for a range of taxable incomes. These figures take into account the proposed personal income threshold and tax offset changes.

Table 2: Tax payable and potential savings

Taxable income	Tax payable in 2017/18	From 1/7/2018		From 1/7/2022		From 1/7/2024	
		Tax payable	Tax saved	Tax payable	Tax saved	Tax payable	Tax saved
$40,000	$4,947	$4,657	$290	$4,492	$455	$4,492	$455
$80,000	$19,147	$18,617	$530	$18,607	$540	$18,607	$540
$120,000	$34,432	$34,217	$215	$32,407	$2,025	$32,407	$2,025
$160,000	$50,032	$49,897	$135	$48,007	$2,025	$46,207	$3,825
$200,000	$67,232	$67,097	$135	$65,207	$2,025	$60,007	$7,225

Medicare levy to stay at 2%

The previously proposed increase in the Medicare levy to 2.5% from 1 July 2019 has been abandoned.

Increasing the Medicare Levy Low-Income Thresholds

Date of Effect: 1 July 2018

The Government will increase the Medicare levy low-income thresholds for singles, families, seniors and pensioners from the 2018/19 income year. The table below summarises the changes.

	2016/17	2017/18
Single	21,655	21,980
Single eligible for SATO	34,244	34,758
Family	36.541	37,089
Couple eligible for SATO	47,670	48,385
Additional threshold for each dependent child	3,356	3,406

Extension of instant asset write off

Date of effect: 1 July 2018

Small businesses with turnover of less than $10 million will be able to immediately write-off newly acquired eligible assets valued at less than $20,000 for a further 12 months.

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Tax Integrity Measure for Testamentary Trusts

Date of effect: 1 July 2019

The Government has announced that concessional tax rates for minors who receive income from testamentary trusts will be limited to income derived from income or assets in the original deceased estate. The aim is to prevent minors having the benefit of adult marginal tax rates from assets transferred into the trust that are unrelated to the deceased estate.

Introduction of an economy-wide cash payment limit.

Date of effect: 1 July 2019

The Government will introduce a limit of $10,000 for cash payments made to businesses for goods and services. Currently, large undocumented cash payments can be used to avoid tax or to launder money from criminal activity. Payments over the threshold will need to be made either electronically or by cheque.

Superannuation

Work test exemption for retirees

Date of effect: 1 July 2019

A person aged 65 to 74 is currently able to make contributions to superannuation if the 'work test' has been satisfied (i.e. they have worked at least 40 hours in 30 consecutive days) in the financial year the contribution is made.

A one year exemption from the work test will apply to older Australians who have less than $300,000 in total super savings. This exemption will apply to the financial year following the last year the work test was satisfied. This will allow an additional period of time for those eligible to contribute to superannuation.

Insurance in super

Date of effect: 1 July 2019

In many super funds, including MySuper and employer funds, insurance is offered as a default option. It's proposed that members will need to 'opt-in' for insurance where they:

- have a balance less than $6,000
- are new members under age 25, or
- have an account with no contribution in 13 months that is considered inactive.

Protection for small super balances

Date of effect: 1 July 2019

Measures will be introduced to reduce the impact of fees on low super balances and focus on returning lost super to members.

Protection will be provided to super accounts by limiting administration and investment fees to a 3% annual cap. This cap will apply to accounts with balances below $6,000.

Exit fees will also be banned on all super accounts.

A $6,000 threshold will apply to inactive accounts. These accounts will need to be transferred to the ATO. The ATO will increase data matching activities to return amounts to active accounts held by members.

Personal deductions

Date of effect: 1 July 2018
The ATO will develop new compliance processes for taxpayers claiming a deduction for personal superannuation contributions. This includes raising awareness regarding the necessary steps, including lodging a 'notice of intent to claim a tax deduction' form with the super fund trustee.

Comment: this is already a part of Hub Wealth and SSW Superwrap processes.

Inadvertent concessional cap breaches

Date of effect: 1 July 2018
Employers are required to pay Superannuation Guarantee (SG) based on an individual employee's income. For some individuals this means their concessional contribution cap is breached by the total of multiple employers' compulsory contributions.

Individuals who have a total income exceeding $263,157 p,a, and multiple employers will have the option to elect to no longer have SG contributions paid on certain income from their employer. This overcomes the inadvertent breach of the concessional contribution cap and associated tax penalties.

SMSF increase in member numbers

Date of effect: 1 July 2019
Self-managed superannuation funds (SMSFs) are limited to having four members. This threshold will increase to six to provide greater flexibility and allow families, for example, to all be members of the same SMSF.

Comment: the impact is likely to be minimal, as only 7% of SMSFs have more than 2 members currently.

SMSF three-year audit cycle

Date of effect: 1 July 2019
SMSFs with a history of good record-keeping and compliance will move from providing an audit on an annual basis to a three-yearly cycle. Eligible SMSFs will be those with a history of three consecutive years of clear audit reports and have lodged annual returns on time.

Comment: this seems counter-intuitive at a time when SMSF compliance is under scrutiny.

Social Security

Pension Loans Scheme

Date of effect: 1 July 2019
The Pension Loans Scheme allows eligible individuals to access some of the equity in the home or other property via a Government loan, which is advanced in fortnightly instalments.

This scheme will be available to all Australians over Age Pension age and the maximum loan payments will increase to 150% of the full Age Pension. Eligibility will continue to limited by the value of the property used as loan security.

The following table summarises the payment ranges for singles and couples based on current rates, where the full pension and no pension is available.

Table 3: Pension Loans Scheme payment range

	Full pension entitlement	No pension entitlement
Single	$11,799	$35,397
Couple combined	$17,787	$53,360

Work Bonus

Date of effect: 1 July 2019
Under the Work Bonus, the first $300 per fortnight (currently $250) of employment income will not count when calculating Age Pension entitlements under the income test.

Self-employed retirees will be able to access the scheme for the first time.

A 'personal exertion test' will ensure the bonus only applies to income earned from paid work.

Any unused Work Bonus (up to a total of $7,800 pa) can continue to be accrued to reduce assessable employment income in a future period.

Means-testing of certain lifetime income streams

Date of effect: 1 July 2019
Favourable social security rules will be introduced to encourage the development and use of income products that will help retirees reduce the risk of outliving their savings.

Only 60% of the amount initially invested in these 'lifetime income streams' will be assessed under the assets test. This concession will apply until the account holder is 84 (or for a minimum of five years). After this time, only 30% will be assessed for the rest of the person's life. Also, only 60% of the income payments will be assessed under the income test.

Means testing of Carers Allowance

Date of effect: To be confirmed by Government
As previously announced, the Carer Allowance and Carer Allowance (child) Health Care Card will be income tested. Households earning over $250,000 won't be eligible. Both existing and new recipients of Carer Allowance will need to meet this income test.

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Aged care

Protecting older Australians
Date of effect: 1 July 2018

The Government will provide $22 million over five years to protect the rights of older Australians and protect them from abuse. The Government will also work with the states to develop a nationally consistent legal framework and establish a National Register of Enduring Powers of Attorney.

A new Aged Care Quality and Safety Commission will be established from 1 January 2019 to combine the functions of the existing Aged Care Quality Agency, Aged Care Complaints Commissioner and, from January 2020, the aged care functions of the Department of Health.

Additional funding for aged care

Date of effect: 1 July 2018
Funding for home care services and residential aged care will increase, including:

- 14,000 new home care packages over four years
- 13,500 new residential aged care places, and
- grants for aged care facilities in rural, regional and remote areas.

The Government will combine the Residential Care and Home Care Programs from 1 July 2018 to provide greater flexibility to respond to changes in demand for residential aged care places and home care packages.

Providing better access to and quality of aged care

The Government announced various measures to improve aged care access and understanding. They include:

- Improvements to MyAgedCare website to provide better information and easier access for clients and service providers;
- Introduction of face-to-face services and outreach services to help older clients and their families make informed choices about their aged care needs;
- Simplification of the process for entry to aged care and creation of a short form for the means test.

Legislated super changes post 1 July 2018

Downsizer contributions

Individuals aged 65 or older may be able to make super contributions of up to $300,000 (or $600,000 per couple) from 1 July 2018 when selling their home.

These contributions, known as ‘downsizer contributions’ can be made without having to meet a ‘work test’ or ‘total super balance test’ and they don’t count towards the contribution caps. However, they must be made with 90 days of settlement and a tax deduction can’t be claimed.

The property must have been owned for at least 10 years and have been the main residence at some time during this period.

First home super saver scheme - access

First home buyers who have made super contributions under the First Home Super Saver Scheme (FHSSS) can access their money from 1 July 2018.

The FHSSS started on 1 July 2017 and allows eligible first home buyers to save a deposit in the concessionally taxed superannuation system. Contributions of up to $15,000 per year (and a total of $30,000) can be made and they count towards the relevant contribution cap.

Catch-up concessional contributions

Where the annual concessional contribution (CC) cap is not fully utilised from 1 July 2018, it may be possible to accrue unused amounts for use in subsequent financial years.

The CC cap is currently $25,000 p.a.(1) Counted towards this limit are all employer contributions (including super guarantee and salary sacrifice), personal tax deductible contributions and certain other amounts.

Unused cap amounts can be accrued for up to five financial years. 2019/20 is the first financial year it will be possible to use carried forward amounts.

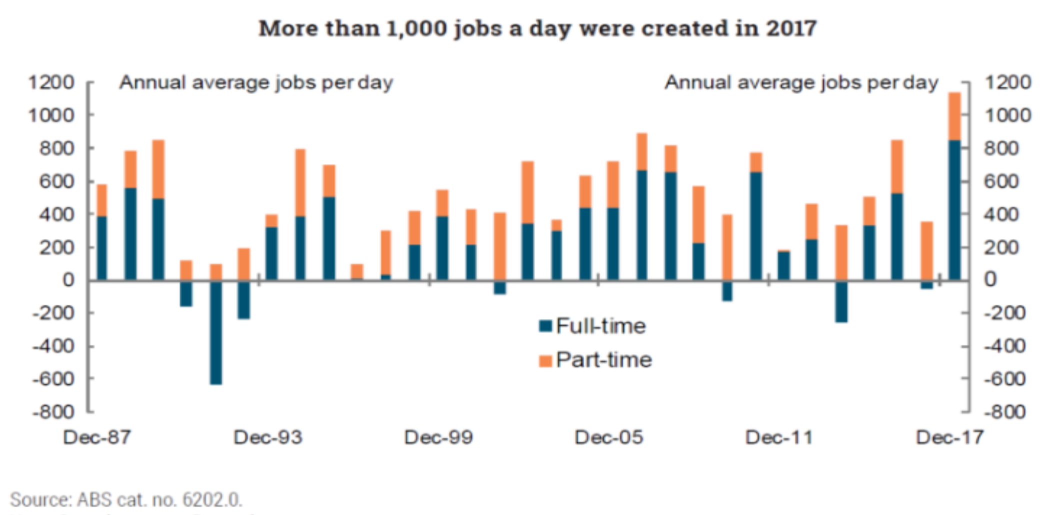
To be eligible, individuals cannot have a total super balance exceeding $500,000 on the previous 30 June.

This measure could help those with broken work patterns and competing financial commitments to better utilise the CC cap. It could also help to manage tax and get more money into super when selling assets that result in a capital gain.

1. This cap applies in FY 2017/18 and 2018/19. It may be indexed in future financial years.

Budget and Economic Forecasts

The 2018/19 budget is entitled “A Plan for A Stronger Economy”. The background is the table below, showing that a record 1,000 jobs per day were created in 2017.



The headline Budget estimates are:

- A Budget deficit in 2018-2019 of $14.5 billion, the lowest in a decade.
- A Budget surplus of $2.2 billion in 2019-2020, a surplus a year ahead of expected in last year’s Budget. Larger surpluses are forecast to follow.
- Government spending at 24.7% of GDP, while taxes will stay at the 23.9% of GDP that this Government calls a ‘policy speed limit’. It needs an equivalent for spending.
- Net debt of $349 billion with a servicing cost of $14 billion is forecast to peak this year as a share of national income

The Government has focussed the politics on the improvements in the annual deficit, but it’s only with surpluses that debt is repaid. They believe net debt peaked in 2017-2018 at 18.6% of GDP and gross debt will be $126 billion less by 2027-2028. Achievement of these surpluses will take a lot of spending restraint over successive governments.

The other Budget aggregates for 2018-2019 include:

- CPI increase of 2.25% (up from 2% for 2017-2018)
- Unemployment rate of 5.25% (down from 5.5%). This may mean that wages growth remains subdued, but the budget forecasts assumes wages will increase by more than 3% in 2019/20
- Real GDP 3% (up from 2.75%), slightly below the 3.25% forecast of the Reserve Bank.

Overall, the Australian economy and budget outcomes will continue to be significantly impacted by global economic and trade developments.

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