

2018 FEDERAL BUDGET OVERVIEW

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After reading through the Government's 2018 Budget, one could be forgiven for thinking there just might be an election in the wind.

There is something for almost everyone.

However, there are also some carrots dangling from the stick that won't come into play for some years – part of a longer term strategic play by the Government.

Let's look at some of the key announcements:

The economic state of the nation

Australia has enjoyed its 27th year of consecutive growth and business conditions are at their highest level since the global financial crisis. The Budget is on track to return to a modest surplus in 2019-20.

Income tax

The Government proposes to deliver personal tax reforms in three steps:

1. Immediate tax relief for low to middle income earners to apply from 1 July 2018.

Low to middle income earners with an income of up to \$90,000 pa will receive a tax offset of up to \$530. Once income exceeds \$90,000, the offset will start to reduce and will cut out when income reaches \$125,333. The offset will be paid as a lump sum when an individual lodged their income tax return.

The low to middle income tax offset will be available for four years to 30 June 2022.

The offset is in addition to the current low-income tax offset.

2. From 1 July 2018, the income threshold at which the 32.5% tax bracket cuts out, will increase from \$87,000 to \$90,000.

When the low to middle income tax offset ceases on 30 June 2022, the upper threshold for the 19% tax bracket will be increased from \$37,000 to \$41,000. The low-income tax offset will also increase from the current \$445 to \$645.

From 1 July 2022, the top threshold for the 32.5% tax bracket will increase from \$90,000 to \$120,000. This will represent a tax saving of \$1,350 per year.

3. The third stage of the proposed reforms will see the 37% tax bracket disappear completely.

The 32.5% bracket will be increased from \$120,000 to \$200,000.

It is estimated that 94% of taxpayers will have a tax rate of 32.5% or less, from 1 July 2024.

Medicare Levy

The plan to increase the Medicare Levy to 2.5% (from 2%) from 1 July 2019 is not proceeding. Originally intended to fund the NDIS, this will now be funded from the budget.

The low-income thresholds that apply before the Medicare Levy becomes payable will increase for 2017-18.

| Status | 2016-17 threshold | 2017-18 threshold |
|-----------------------------|-------------------|-------------------|
| Single | \$21,665 | \$21,980 |
| Family | \$36,541 | \$37,089 |
| Single seniors & pensioners | \$34,244 | \$34,758 |
| Family seniors & pensioners | \$47,670 | \$48,385 |

For each dependent child or student, the family threshold will increase by \$3,406.

Small business instant write off

The accelerated depreciation for small business first announced in the 2015-16 budget, and extended to 30 June 2018, is to be extended for a further 12 months to 30 June 2019.

This will allow small businesses to claim an immediate deduction for eligible assets first used or installed ready for use by 30 June 2019.

Superannuation

This year's budget included some more superannuation announcements, although not as significant as those made in recent years.

- From 1 July 2019, Australians aged between 65 and 74 with a total super balance of less than \$300,000 will be able to make voluntary contributions to super in the financial year following that in which they were last gainfully employed, without having to meet the work test. This will apply to both concessional and non-concessional contributions and will be governed by the current contribution caps.
- From 1 July 2018, the integrity of the 'notice of intent' process for claiming a tax deduction for personal super contributions will be improved.
- The arrangements for holding insurance inside super will change from 1 July 2019 for some super fund members. The current arrangement will change to an opt-in for:
 - Members with a balance of less than \$6,000;
 - Members under 25 years of age; and
 - Members whose accounts have not received a contribution in 13 months and are inactive.
- People who have multiple employers and have a total income of more than \$263,157 will be able to nominate that their wages from a certain employer are not to be subject to superannuation guarantee

contributions. This will avoid an inadvertent breach of the \$25,000 concessional contribution cap and is intended to take effect from 1 July 2018.

- From 1 July 2019, the maximum number of members a self-managed super fund can have will increase from four to six.
- Self-managed super funds with a history of good record keeping and compliance will be able to move to a three-year audit cycle instead of the current annual audit. This measure will commence from 1 July 2019 and will reduce red tape and lead to cost savings for self-managed super funds.

Aged Care

Significant allocations have been made to support older Australians in need of in-home or residential aged care support. Some of the measures include:

- To assist older Australians to remain in their own home for longer, 14,000 new high-level home care packages are to be provided, in addition to the 6,000 places announced in last year's Mid-Year and Economic Fiscal Outlook (MYEFO). The additional packages will be available from the 2018-19 financial year.
- An additional 13,500 residential aged care places and 775 short-term restorative care places are to be made available.
- \$105 million is to be allocated to support the delivery of residential aged care places for remote Indigenous communities.
- The My Aged Care website will receive a financial boost with \$61.7 million to improve and simplify the website and the assessment forms for people wishing to access aged care services.
- Further funding will be available from 2019-20 for capital grants for aged care facilities in regional, rural and remote Australia.
- The Budget provides for \$82.5 million over four years from 2018-19 for the delivery of mental health services for people in residential aged care.
- \$14.8 million has been allocated over a two-year period from 2018-19 to enable preparatory work to be carried out for a new national assessment framework for people seeking aged care.

Social security

In recognising the increasing needs of older Australians, a number of key social security related announcements were made, including improvements to the Pension Work Bonus:

- Currently a person may earn up to \$6,500 per annum from employment without it impacting on their age pension entitlements under the income test. From 1 July 2019, the limit will increase to \$7,800 per annum.

In addition, the Government is extending the Work Bonus to include income from self-employment.

These are welcome announcements and will enable a pensioner couple to earn up to \$15,600 between them without it affecting their age pension.

- With its roots dating back to 1985, the Pension Loans Scheme enables older Australians who receive a reduced, or no age pension because of the application of either the income test or the assets test, to receive fortnightly payments from the Government of up to the full rate of age pension. The payments are secured by way of a loan over the recipient's home and is not repayable until the death of the pensioner or until the home is sold.

The Government has announced that from 1 July 2019, the Pension Loans Scheme will be expanded allowing eligible people to receive up to 150% of the full rate of age pension.

- Means testing rules are to be amended to encourage the take up of lifetime retirement income products designed to better manage longevity risk. Only limited information is included in the Budget Papers, however, this announcement was expected.

Conclusions

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.

Like all Budgets, the 'devil is in the detail' and for any of the measures announced to become law, they have to be passed by the Parliament.

There is something for most people in the 2018 Budget, however for some, they may take a little while before they flow through.

And, just before you head out for a celebratory drive in the country side, expect plenty of road works and delays. The Budget includes a ten-year, \$75 billion infrastructure spend on roads, bridges, rail and water around Australia.

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