

2018 Federal Budget Analysis

8 May 2018

Scott Morrison's third budget is headlined by \$140 billion in tax cuts over the next decade, immediate tax relief of up to \$1,060 a year for middle-income households and a fundamental reform of the tax system.

Summary of Budget measures

Note: These changes are proposals only and may or may not be made law.

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).
- The Medicare Levy will remain at 2%.
- 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.
- 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 at the end of this summary.

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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

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Medicare levy to stay at 2%

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

Extension of instant asset write off

Date of effect: From 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.

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 (ie 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 which has not received a contribution in 13 months and are 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.

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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 pa 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.

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.

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 be 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

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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.

Under the proposed rules, 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.

Aged care

Additional funding for aged care

Date of effect: From 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.

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.

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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 concessional 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.

An [online estimator](#) is available to explore the potential benefits of using the FHSSS.

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 pa¹. 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.

Important information

The Federal Budget Analysis prepared by the MLC Technical team, part of GWM Adviser Services Limited, appears below.

The information contained in this Federal Budget Analysis is current as at 8 May 2018 and is prepared by MLC Technical, part of GWM Adviser Services Limited ABN 96 002 071749, registered office 150-153 Miller Street North Sydney NSW 2060, a member of the National Australia Bank Group of Companies.

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