A Clear Direction Financial Planning
Level 19, 10 Eagle Street, Brisbane QLD 4000
scottk@acleardirection.com.au
(07) 3303 0269
ABN: 85 147 572 870

# 2018 Budget - Personal Finance Summary

The 2018 Federal Government Budget address has been delivered in Canberra overnight. This summary is focussed on the major changes to individual and family personal finances grouped into three main areas – tax planning, superannuation & retirement planning and government benefit planning.

### Tax Planning

- Income tax reductions through changes to the tax offset arrangements and tax bracket levels.
- Medicare levy low income thresholds to be increased.
- Proposed Medicare Levy increase from 2% to 2.5% scheduled from 1 July 2019 will not proceed.
- Extension of the $20,000 instant asset write-off for small business to 30 June 2019.

### Superannuation & Retirement Planning

- Maximum number of allowable members in SMSFs will be increased to six from 1 July 2019.
- Three-yearly audit cycle for some SMSFs.
- Introduction of a measure to prevent inadvertent concessional cap breaches by high income earners.
- Superannuation work test exemption for recent retirees.
- Changes to superannuation insurance arrangements.
- Introduction of Superannuation fee protection measures.
- Introduction of a Retirement Income Framework.

### Government Benefit Planning

- Age Pension Work Bonus increased to $7,800 per annum and available to self employed.
- Expansion of the Pension Loans Scheme.
- Increases in the number of available Home Care Packages.

## TAX PLANNING

### Income tax reduction through changes to tax offset arrangements

From 1 July 2018 a low and middle income tax offset will be introduced as a non-refundable tax offset of up to $530 p.a. to low and middle income earners starting in the 2018-19 financial year and continuing through to 2021-22. The benefit is in addition to the existing low income tax offset, and will be available on assessment after a taxpayer lodges their tax return after the end of June 2019.

Those earning up to $37,000 who face a 19 per cent tax rate will have their tax reduced by up to $200. This will increase incrementally at a rate of 3 cents per dollar for those earning between $37,000 and $48,000 to the maximum benefit of $530 p.a. This maximum offset of $530 will be available to taxpayers earning between $48,000 and $90,000. This benefit then gradually phases out at a rate of 1.5 cents per dollar reducing to zero at a taxable income of $125,333.

**Strategy Thought**

The benefit to those eligible will come in one payment on completion of tax returns after the completion of the financial year. Consideration should be had as to how best capture this benefit through extra loan repayments, personal savings, increased investments or indeed discretionary spending.

## Income tax reduction through changes to tax brackets

From 1 July 2018, the Government will provide a tax cut of up to $135 per year by increasing the top threshold of the 32.5 per cent tax bracket from $87,000 to $90,000.

When the low and middle income tax offset mentioned previously concludes in 2021-22, the benefits will be locked in by increasing the top threshold of the 19 per cent tax bracket from $37,000 to $41,000 and increasing the low income tax offset from $445 to $645 from 1 July 2022.

From 1 July 2022 the top threshold of the 32.5 per cent tax bracket will be increased from $90,000 to $120,000, providing a tax cut of up to $1,350 per year.

From 1 July 2024, the Government will increase the top threshold of the 32.5 per cent tax bracket from $120,000 to $200,000, removing the 37 per cent tax bracket completely.

The plan means that around 94 per cent of all taxpayers are projected to face a marginal tax rate of 32.5 per cent or less in 2024-25. This compares with a projected 63 per cent of taxpayers in 2024-25 without change to current settings.

Putting these two income tax changes together sees the following proposed changes

| Rate (%) | Current tax thresholds Income range ($) | New tax thresholds From 1 July 2018 Income range ($) | New tax thresholds From 1 July 2022 Income range ($) | New tax thresholds From 1 July 2024 Income range ($) |
|---|---|---|---|---|
| Tax free | 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 | - |
| 45 | >180,000 | >180,000 | >180,000 | >200,000 |
| Low and middle income tax offset | - | Up to 530 | - | - |
| Low Income Tax Offset | Up to 445 | Up to 445 | Up to 645 | Up to 645 |

**Strategy Thought**

Whilst the potential benefit in 2018/19 might seem minimal, those earning above $87,000 should consider how best to utilise the savings that will be on offer.

## Medicare levy low income thresholds to increase

The Medicare levy low income thresholds for singles, families, seniors and pensioners will be increased from the current 2017/18 income year.

The threshold for singles will increase to $21,980 (up from $21,655 in 2016/17). The family threshold will increase to $37,089 (up from $36,541 in 2016/17). For single seniors and pensioners, the threshold will increase to $34,758 (up from $34,244 in 2016/17). The family threshold for seniors and pensioners will increase to $48,385 (up from $47,670 in 2016/17). For each dependent child or student, the family income thresholds increase by a further $3,406 (up from $3,356 in 2016/17).

**Strategy Thought**

For seniors and pensioners, this changes see the maximum allowable taxable income that can be earned before paying any tax rise slightly which in turn sees an ability to hold slightly higher levels of income producing assets in taxable accounts before needing to pay tax. (e.g. This may allow some to hold a larger sum of assets outside of the superannuation system to remain in a tax exempt status.)

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## Proposed Medicare levy increase from 2% to 2.5% will not be implemented

The 2017/18 Federal Budget measure to increase the Medicare levy from 2% to 2.5% of taxable income from 1 July 2019 will not proceed.

## Business Tax Incentives

### Immediate tax deductibility threshold for small businesses

The Government is extending the $20,000 immediate deductibility threshold for a further 12 months to 30 June 2019. The concession is available to all small businesses with aggregate annual turnover less than $10 million.

**Strategy Thought**

Small businesses owners are encouraged to consider whether capital purchases of less than $20,000 be embarked upon in the 2018/19 financial year.

# SUPERANNUATION & RETIREMENT PLANNING

## Increased membership of SMSFs

The maximum number of allowable members in SMSFs will be increased to six from 1 July 2019.

**Strategy Thought**

This may encourage SMSF holders to invite other members of the family into the workings of their SMSF which in turn may provide flexibility in relation to the operations and taxation of a fund.

## Three-yearly audit cycle for some SMSFs

Audit requirements for SMSFs will be changed to a three-yearly requirement for funds with a history of good record keeping and compliance. i.e. for SMSF trustees that have a history of three consecutive years of clear audit reports and timely lodgements of the fund's annual returns. This measure will commence on 1 July 2019. The government will consult with stakeholders to ensure a smooth implementation of this measure.

**Strategy Thought**

This provides trustees with an added incentive to undertake better record keeping and get audits done on a timely manner so as to avoid the cost of an annual audit rather than one every three years.

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## Introduction of a measure to prevent inadvertent concessional cap breaches by high income earners

From 1 July 2018, individuals whose income exceeds $263,157, and have multiple employers, will be able to nominate that their wages from certain employers are not subject to the superannuation guarantee (SG) from 1 July 2018. The measure is intended to ensure eligible individuals can avoid unintentionally breaching the $25,000 annual concessional contributions cap as a result of multiple compulsory SG contributions. Breaching the cap results in individuals being liable to pay excess contributions tax and a shortfall interest charge. Employees using this measure may receive additional income which will be taxed at marginal tax rates.

**Strategy Thought**

For individuals in this category it will be prudent to review employer superannuation arrangements to take advantage of this flexibility.

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## Superannuation work test exemption for recent retirees

Currently people aged 65-74 must work a minimum of 40 hours in any 30-day period in the financial year in order to keep making contributions to superannuation – this is known as the work test. From 1 July 2019, Australians aged 65 to 74 with a total superannuation balance below $300,000 will be able to make voluntary contributions for 12 months from the end of the financial year in which they last met the work test.

Total superannuation balances will be assessed for eligibility at the beginning of the financial year following the year that they last met the work test. Once eligible, there is no requirement for individuals to remain under the $300,000 balance cap for the duration of the 12 month period.

Existing annual concessional and non-concessional caps ($25,000 and $100,000 respectively) will continue to apply to contributions made under the work test exemption. Individuals will also be able to access unused concessional cap space to contribute more than $25,000 under existing concessional cap carry forward rules during the 12 months.

As bring forward arrangements for non-concessional contributions are not available to those 65 and over, individuals will not be able to access bring forward non-concessional contributions under the work test exemption.

**Strategy Thought**

This will extend the window for recent retirees over the age of 65 to contribute funds into superannuation in order to enhance the structure of assets in the year after the commencement of full retirement.

## Changes to superannuation insurance arrangements

Insurance within superannuation will move from being a default framework to being offered on an opt-in basis for:

- members with low balances — less than $6,000
- members under the age of 25 years, and
- members whose accounts have not received a contribution in 13 months and are inactive.

The changes will take effect on 1 July 2019 and affected superannuants will have a period of 14 months to decide whether they will opt-in to their existing cover or allow it to switch off.

**Strategy Thought**

Those impacted by the change will need to carefully consider whether the insurance on offer will be needed in future years before automatically opting out of the cover on offer.

## Introduction of Superannuation fee protection measures

A 3% annual cap will be introduced on passive fees charged by superannuation funds on accounts with balances below $6,000, and exit fees on all superannuation accounts will be banned.

The government will also strengthen the ATO's account consolidation regime by requiring the transfer of all inactive superannuation accounts to the ATO where the balances are below $6,000. The ATO will expand its data matching processes to proactively reunite these inactive superannuation accounts with the member's active account, where possible. This measure will also include the proactive payment of funds currently held by the ATO.

These changes will take effect from 1 July 2019.

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## Introduction of a Retirement Income Framework

### Boosting retirement income choices

The Government is developing a retirement income framework to increase flexibility and choice for retirees and help boost living standards. The framework will ensure retirees have more retirement income products to choose from and the information they need to make a choice. New Age Pension means testing rules for pooled lifetime income streams will also support innovation in retirement income products.

These steps build on changes made in the 2016-17 Budget to extend the tax exemption on superannuation earnings in the retirement phase to a wider variety of retirement income products.

### Retirement income covenant

Currently there are no obligations on superannuation fund trustees to consider the retirement income needs of their members.

The Government will introduce a retirement income covenant in the Superannuation Industry (Supervision) Act 1993, requiring trustees to develop a strategy that would help members achieve their retirement income objectives. This will focus the industry on providing a higher standard of living for retirees.

The covenant will require trustees to offer Comprehensive Income Products for Retirement (CIPRs): products that provide individuals income for life, no matter how long they live.

The Government is releasing a position paper for consultation shortly, outlining its proposed approach to the covenant.

### A new approach to product disclosure

The Government will also formulate a new approach to retirement income product disclosure rules that will require providers to report simplified, standardised information on retirement income products.

### Means testing for lifetime products

From 1 July 2019, new Age Pension means testing rules will be introduced for pooled lifetime income streams. The rules will assess a fixed 60 per cent of all pooled lifetime product payments as income, and 60 per cent of the purchase price of the product as assets until 84, or a minimum of 5 years, and then 30 per cent for the rest of the person's life.

These new rules will provide industry with the confidence and stability to develop innovative products that can help retirees manage the risk of outliving their income, while ensuring a fair and consistent means test treatment of all retirement income products. These changes also pave the way for the development of CIPRs.

Retirees will have more choice and flexibility in retirement income products to meet a wider variety of needs and to help boost their living standards.

**Strategy Thought**

Greater consideration will need to be had of alternatives to the prevailing account based pension structure for superannuation assets. More information will be released on these measures in future periods.

# GOVERNMENT BENEFIT PLANNING

## Age Pension Work Bonus increased to $7,800 per annum and available to self employed

Currently, the first $250 of employment income a fortnight is not counted in the Age Pension income test. This amount has not been increased since 2011 and does not apply to income earned from self-employment. From 1 July 2019 the Work Bonus will be increased to $300 per fortnight (up from $250 per fortnight) and for the first time it will also be extended to the self-employed. This is in addition to the income free area, which is currently $168 a fortnight for a single pensioner and $300 a fortnight (combined) for a pensioner couple. So a single person with no other income will be able to earn up to $468 a fortnight from work and get the maximum rate of Age Pension.

**Strategy Thought**

For those planning to work past Age Pension age (or at least open to the idea) this change will potentially provide a greater benefit from doing so through reduced reductions in the Age Pension especially if the intention was to undertake work such as contracting or running your own part time business.

## Expansion of the Pension Loans Scheme (PLS)

Currently, the Government offers a reverse mortgage through the Pension Loans Scheme (PLS) to part and some nil rate pensioners to allow them to 'top up' their Age Pension to the maximum rate. This provides an option for Australians to supplement their income. However, maximum rate age pensioners and self funded retirees are currently excluded from the PLS.

From 1 July 2019, the Government will:

- expand eligibility of the Pension Loans Scheme (PLS) to all Australians of Age Pension age including maximum rate age pensioners; and
- increase the maximum allowable combined Age Pension and PLS income stream to 150 per cent of the Age Pension rate.

Full rate pensioners will be able to increase their income by up to $11,799 (singles) or $17,787 (couples) per year by unlocking the equity in their home. PLS participants have the flexibility to start or stop receiving PLS payments as their personal circumstances change, and generally repay the loan once their home is sold.

Existing age-based loan to value ratio limits will continue to apply. This means that PLS holders will not be able to owe the Government more than what their home is worth. The current PLS interest rate of 5.25 per cent per annum will apply to existing and new loans. This has been the rate since 1997.

**Strategy Thought**

At an interest rate of 5.25%, the PLS provides an alternative worthy of consideration by some retirees needing extra cash flow in retirement.

## Increases in the number of available Home Care Packages

The government will provide 14,000 additional high level home care packages. By 2021-22.

Since last Budget, the Government has committed to deliver an additional 20,000 high level home care packages over the next four years for people with high level needs. This will mean that by 2021-22, over 74,000 high level home care packages will be available, an increase of 86 per cent on 2017-18.

# CONCLUDING COMMENTS

Whilst the income tax breaks grabbed the attention of the media, there were a multitude of changes in the 2018 Budget that will need to be worked through by singles, couples and families depending on your age and circumstance.

If you would like to discuss any of the details contained in the budget and how those details impact your personal situation, please do not hesitate to be in contact.



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