Federal Budget 2018

May 2018

Tonight, 8 May 2018, the Treasurer, Scott Morrison, delivered his third budget in which he focused on personal income tax reform, job creation, essential services, security and fiscal management. This newsletter summarises the key points from the 2018 Federal Budget.

Personal Income Tax Reform

7 Year Personal Income Tax Plan

At the centre of this year's Federal Budget is the Government's substantial income tax reform plan designed to provide tax relief to low and middle income earners, address bracket creep and ultimately simplify the income tax system. The Treasurer stated that the plan involves 3 steps that will be delivered over a 7 year period as outlined below:

Stage 1: Lump sum tax relief for low and middle income earners

A new low and middle income tax offset, worth up to $530, will be introduced for low and middle income earners and will be available for the 2018-19, 2019-20, 2020-21 and 2021-22 income years. We note this benefit is in addition to the existing Low Income Tax Offset (LITO).

Table 1: Value of new tax offset at various incomes

Income	Value of new offset	Income	Value of new offset
$30,000	$200 p.a.	$70,000	$530 p.a.
$40,000	$290 p.a.	$90,000	$530 p.a.
$50,000	$530 p.a.	$100,000	$515 p.a.

Stage 2: addressing bracket creep

The Government has announced changes aimed at addressing bracket creep:

From 1 July 2018

- The upper threshold of the middle income tax bracket (at which a marginal tax rate of 32.5% applies) will be increased from $87,000 to $90,000.

From 1 July 2022 (once the new low and middle income tax offset ends):

- The upper threshold of the 19% tax bracket will be increased from $37,000 to $41,000 and the existing LITO will be increased from $445 to $645.
- The upper threshold of the middle income tax bracket will be increased from $90,000 to $120,000.

Stage 3: simplifying personal income tax

The Government will seek to simplify the personal income tax system by removing the existing 37% tax bracket entirely from 1 July 2024. This will be achieved by increasing the top threshold of the 32.5% tax bracket from $120,000 to $200,000.

Outcome: New personal income tax rates over time

The table below shows the proposed changes to the personal income tax rate thresholds over time:

Table 2: New personal tax rates and thresholds

Rate[1]	Current	From 1 July 2018	From 1 July 2022	From 1 July 2024
Nil	$0 - $18,200	$0 - $18,200	$0 - $18,200	$0 - $18,200
19.0%	$18,201 - $37,000	$18,201 - $37,000	$18,201 - $40,000	$18,201 - $40,000
32.5%	$37,001 - $87,000	$37,001 - $90,000	$40,001 - $90,000	$40,001 - $200,000
37.0%	$87,001 - $180,000	$90,001 - $180,000	$90,001 - $180,000	-
45.0%	$180,001 and over	$180,001 and over	$180,001 and over	$200,000 and over

[1] Excluding Medicare Levy of 2%.

Medicare Levy increase scrapped

The Government announced that the planned 0.5% increase to the Medicare Levy (from 2% to 2.5%) from 1 July 2019, which introduced as part of last year's Federal Budget, will no longer proceed.

Changes to superannuation

After several years of making substantial changes to the superannuation system, super was spared further significant upheaval. There were however several minor changes announced. These changes apply from 1 July 2019 unless stated otherwise:

General

- Total annual fees on super accounts with a balance of less that $6,000 will be capped at 3% of the account balance.
- Exit fees will be banned on all super products.

- Super funds will be required to formulate a retirement income strategy for their members and to provide them with the option of being able to use some of their super to buy an annuity that can be paid for the life of the member (a "deferred lifetime annuity).
- From 1 July 2018, some high-income earners (above $263,157) who have multiple employers will be able to nominate that their wages from certain employers are not subject to Superannuation Guarantee. This will reduce the number of people who breach the $25,000 cap on concessional contributions, and allow some people to negotiate a higher income instead.

Insurance inside super

- Life insurance inside super will be provided on an opt-in basis (i.e. no automatic cover) for those under the age of 25.

Inactive / lost super accounts

- Inactive super accounts (accounts that have not received a super contribution for 13 months) that have a balance of less than $6,000 will be transferred to the ATO to protect against further erosion due to fees etc.
- the ATO will use data matching to 'reunite' low balance and/ or inactive superannuation accounts with members' active accounts.

Work test exemption

- Those aged 65-74 with super balances under $300,000 will be able to make voluntary super contributions (up to existing concessional and non-concessional caps) for up to 12 months after they were last able to meet the work test. Access to existing unused concessional caps will continue to be available. This measure is intended to give retirees flexibility in the transition after work.

Self-Manager Super Funds (SMSF)

- The maximum number of members allowed within an SMSF will be increased from 4 to 6.

Elderly Australians who downsize can boost their super

As announced in last year's budget, from 1 July 2018, homeowers aged 65 and over who sell their home (principle place of residence) will be able to put up to $300,000 each (i.e. both members of a couple can make this contribution, giving total contributions of $600,000) into their super account as an after-tax non-concessional contribution. To be eligible to make this contribution, the home must have been owned for at least 10 years prior to sale.

This type of contribution is exempt from the current annual non-concessional contribution limit of $100,000. In addition, eligible individuals who wish to contribute part of the sale of their home to super will be exempt from the usual voluntary contribution rules including meeting the work test, the prohibition on making contributions to super after age 75 and the restriction on making further non-concessional contributions to super once the individual's super account balance reaches $1.6 million (although the $1.6 million super to pension transfer limit still applies).

Pensioners should note that sale proceeds contributed to super under this new measure still count towards the pensions asset test.

Pension Loans Scheme

This is a voluntary "reverse equity mortgage" that offers older Australians an income stream to supplement their retirement income. The Pension Loans Scheme will now be expanded to everyone over Age Pension age and the maximum fortnightly income stream will be increased to 150% of the Age Pension rate. This "reverse mortgage" will enable Australians to use the equity in their homes to increase their incomes.

Pension Work Bonus

The current $250 per fortnight Work Bonus is an incentive from the Federal Government for those who remain partially in the workforce and receive the pension. Pensioners can earn up to $250 per fortnight without it affecting their pension. The current $250 Work Bonus applies to each member of the couple if they are eligible for a government Age Pension. Tonight's budget is increasing the amount a pensioner can earn from working from $250 to $300 per fortnight without reducing their pension. Self-employed pensioners are now also included.

Aged Care

- Around 14,000 more older Australians with high level needs will receive home care packages,
- A new Commissioner will be responsible for safety & the quality of age care,
- A funding boost for mental health services in both residential aged care facilities and those still living at home – helping older Australians to deal with depression & loneliness,
- Increased funding for palliative care in residential age care facilities,
- Increased funding for Indigenous & remote communities,
- Increased funding for the MyAged Care website to make it easier to use and "navigate",
- Creation of an online register for enduring powers of attorney,
- Government to fund targeted programmes to encourage older Australians to remain physically active.

GENERAL ADVICE WARNING - © 2018 Harvest Employee Benefits. This Newsletter has been prepared for Harvest's clients, Policy Committees and corporate clients. The information contained herein is current and up to date at the time it was prepared. Harvest Employee Benefits Pty Ltd, ABN 74 107 226 693 is a Corporate Authorised Representative of Harvest Financial Group Pty Ltd, ABN 80 111 998 068, AFS Licence No 284909. Harvest reserves the right to correct any errors or omissions. Any advice contained herein has been prepared without taking into account any individual or company objectives, financial situation or needs. As such, before acting on any information contained herein, a person or company should consider whether the information is appropriate for them, having regard to their objectives, financial situation and needs.