STRATEGIC WEALTH MANAGEMENT
Investor wealth

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2018 Federal Budget Analysis

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 measures are proposals only and may or may not become 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.

We now provide you with a summary explanation of some of the relevant budget measures.

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.

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.

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.

Social security

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.

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.

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.

Medicare levy to stay at 2%

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

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

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.

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 pa[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.

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

Source: MLC

End of Financial Year Reminders

Super contributions

Review your employer or personal tax deductible super contributions (concessional contributions) to ensure you comply with the limit cap for 2017/18 of $25,000. If making a personal contribution (non-concessional), the limit is $100,000 pa. or you can bring forward 3 years of contributions i.e. $300,000 if under age 65. Personal contributions prior to age 65 require no work test.

CARE: Contributions from previous years may count towards these limits, so you must check with your adviser to ensure you do not breach these limits. Hefty tax consequences apply for breaches.

Spouse contributions

If your spouse earns <$37,000 pa. and you make a super contribution of $3,000, you may be eligible for a rebate of $540. This rebate reduces pro-rata above $37,000 and cuts out at $40,000.

Co-contribution

If you are still working, under 71 years of age and your taxable income is <$36,813, then a super contribution of $1,000 after tax before 30 June gets you the full $500 Government co-contribution. If your taxable income is up to $51,813 then a pro-rata Government co-contribution will be paid.

Super pension

If you reached your preservation age (between 55 and 60 dependent on date of birth) you can convert your super in to a 'transition to retirement account-based pension'. Ask your planner for details.

Age pension

Age pension assets test cut offs for couples is now $837,000 and $556,500 for singles. Your home is not counted. The full age pension (including the pension supplement) is $684.10 per fortnight each for couples and $907.60 per fortnight for singles.

Allocated pensions

You will receive a notification in July of your new minimum allocated pension amount. If changes are required, send the forms back to increase your pension or change the frequency of your payments.

Earnings, Unit Pricing and Returns

Every year in July we see delays in unit prices due to the end of the financial year. This invariably leads to delays in the switches and withdrawals being processed.

REMINDER: If you require a lump sum withdrawal in July, it may be best to have this actioned prior to the 30th of June 2018, however you need to be aware of tax implications for this year.

Question: Why haven't unit prices been updated since 30 June? **Answer:** After June 30, fund managers need to conduct their end of year calculations. While this is taking place, the absolute value of the fund cannot be determined. This means they can't accurately update unit prices. Once fund managers have completed these calculations they will issue unit prices for the day they resume pricing and all of the days for which no prices were issued.

PLEASE NOTE: This delay in unit prices will halt all switches, and withdrawals made after 1 July until the applicable unit prices are available on each individual account

Question: Why has my investment value fallen after 30 June? **Answer:** Some of the managed funds you have selected may pay an income distribution for the period ending on 30 June. Where a managed fund pays an income distribution, this will usually result in a decrease in the unit price of that managed fund and reduce the value of your investment in that option. This will be balanced out once your fund receives the applicable distribution as a monetary amount. Members and investors should be aware that there can be a delay from when the unit price drops, and the day the fund receives the relevant distribution.

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