Federal Budget Summary

Federal Budget Update 2018/19

The announcements in this update are proposals unless stated otherwise. These proposals need to successfully pass through Parliament before becoming law and may be subject to change during this process.

What you need to know

- The Budget is forecast to **return to surplus in 2019/20** with a positive balance of $2.2bn
- The **economic outlook remains positive** with a forecast surplus in 2020/21 of $11bn
- Income **tax relief for low-income and middle-income earners** – up to $530 per annum via a tax offset– for four years commencing 1 July 2018
- Addressed income tax bracket creep – as part of a seven-year plan to ultimately **eliminate the 37% tax bracket**
- A major **crack down on tax cheats** and the black economy
- The **Medicare Levy** will not be increased to 2.5% as proposed in the 2017/18 Federal Budget, instead it stays at 2%
- **Superannuation** – exit fees banned, a 3% passive fee cap for accounts with balances less than $6,000 and a voluntary contribution work test exemption for the financial year following the financial year people aged from 65 to 74 retire whose balance is less than $300,000
- **Social security** – the Pension Loans Scheme is to be extended to all older Australians including self-funded retirees, enabling retirement income to be boosted up to $17,800 per couple without losing the pension or other benefits
- **Social security** – an increase in the work bonus from 1 July 2019 to try and encourage more Australians into paid employment
- **Child care** – more than 85% of families will receive the full Child Care Subsidy from 2 July when the threshold increases to a combined income of $187,000 p.a.
- **Aged care** – seniors will be encouraged to continue living at home rather than going into care with the help of $1.6bn allocated to providing 14,000 home care places over the next four years
- **Small business** – the $20,000 instant asset tax write-off to be extended another year to 30 June 2019
- **Education** – schools to receive an extra $24.5bn over 10 years to fund needs-based education – an average increase of 50% per student
- **Infrastructure** – major spending on rail and road including a $1bn Urban Congestion Fund to improve traffic flow
- **Energy costs** – estimated to reduce by $400 per year on average for every Australian household from 2020, courtesy of the National Energy Guarantee
- **Farmers and rural Australia** – to benefit from $125m allocated to improve GPS technology and weather forecasting

Overview

The economic plan delivered by Treasurer Scott Morrison on Tuesday 8 May is centred on tax:

- **Providing tax relief to low-income and middle-income earners**
- **Addressing bracket creep with a seven-year plan that will see the 37% tax bracket disappear entirely**
- **Maintaining the Medicare Levy at 2%**
- **Cracking down on tax cheats and the black economy.**

Tax relief and radical reform

The tax relief promised by the tax offset will take effect from 1 July 2018:

- People earning up to $37,000 will receive a tax offset of up to $200
- People earning up to $90,000 will receive up to $530
- People earning from $90,000 to $125,333 will receive an offset that tapers to nil.

The radical plan to eliminate the middle tax bracket of 37% is a long way off, both chronologically and politically – 7 years and two elections. All going well, it will be implemented in three phases culminating in a tax scale that, from 1 July 2024, will be as is shown in the table below.

Income tax bracket	Tax on income
$0 – $18,200	0%
$18,201 – $41,000	19%
$41,001 – $200,000	32.5%
$200,001+	45%

Medicare and health

In the 2017/18 Federal Budget, the Government proposed a substantial increase from 2% to 2.5% to help fund the National Disability Insurance Scheme (NDIS). This would have added the average family approximately $600 extra per year.[1] The Treasurer announced that this will no longer be necessary and the Medicare Levy will stay at 2%.

The Budget also includes an agreement that will see public hospitals receive over $30bn in extra funding between 2020/21 and 2024/25.

1. The Daily Telegraph 8 May 2018

Crackdown on welfare cheats, tax cheats, and the black economy

The Government aims to save $229m over three years by intensifying its fraud detection and debt recovery. To stamp out money laundering and tax evasion, from 1 July 2019, cash payments over $10,000 will be illegal, they will have to be made by electronic transfer or cheque instead. Multinationals will also be targeted with a crackdown on stapled securities and tightened thin capitalisation rules.

Superannuation changes

Increasing SMSF maximum membership from four to six
Effective 1 July 2019, the increased maximum of six may be welcome news to large families. However, adding members to an SMSF is a decision that warrants careful consideration and professional advice.

Additional contributions opportunity for recent retirees
From 1 July 2019, if you're aged between 65 and 74 and your super balance is less than $300,000 you will be exempt from the work test that otherwise applies to voluntary super contributions. This applies only to the first year in which you fail to meet the work test requirements, but if you qualify you may be able to make substantial additional contributions to super.

New fee rules from 1 July 2019

- Exit fees on all superannuation accounts will be banned
- Funds on accounts with balances below $6,000 will see a 3% annual cap on passive fees, charged by superannuation funds.

Reuniting lost super accounts
The package includes consolidation measures to transfer all inactive super accounts with balances below $6,000 to the ATO and for the ATO to reunite these accounts (along with accounts currently held by the ATO) with the member's active account where possible.

Preventing inadvertent concessional cap breaches

From 1 July 2018, individuals working for multiple employers and earning more than $263,157 (threshold where 9.5% Superannuation Guarantee will exceed $25,000 concessional contributions cap) will be able to nominate that income from certain employers is not subject to the Superannuation Guarantee. This may enable you to avoid excess concessional contributions consequences.

Insurance in Super
The Government's 'Protecting Your Super Package' includes changes for insurance within superannuation to move from an opt-out basis to opt-in, for members who:

- have balances of less than $6,000
- are under the age of 25 years
- have an account that has not received a contribution in 13 months and are inactive.

These changes are intended to protect retirement savings from the costs of having premiums for unnecessary or duplicate insurance cover. The measures are proposed to start from 1 July 2019 and affected members will have 14 months to decide whether to opt-in to their existing cover or allow it to cease.

Your financial adviser can help you identify the appropriate options for you to protect the people who depend on you.

Small business accelerated depreciation extended to 30 June 2019

Small businesses with aggregate annual turnover of less than $10 million can immediately deduct eligible assets costing less than $20,000 first used or installed ready for use by 30 June 2019. Certain assets are not eligible, for example horticultural plants and in-house software. Assets valued at $20,000 or more may still be placed in the small business simplified depreciation pool and depreciated at 15% in the first income year, and 30% thereafter. The pool can also be immediately deducted if the balance is less than $20,000 over this period (including existing pools). From 1 July 2019, the thresholds for the immediate deduction of assets and the value of the pool will revert to $1,000.

Do you own vacant land?

From 1 July 2019, deductions for expenses associated with holding vacant land (residential or commercial) will be denied. Denied deductions cannot be carried forward for use in later income years and cannot be included in the cost base if they would not ordinarily form part of the cost base.

This measure will not apply to expenses incurred after:

- A property has been constructed on the land, it has received approval to be occupied and is available for rent, or
- The land is being used by the owner to carry on a business (including primary production).

Aged care

New high level home care packages

In response to the growing demand for high-level care at home, the Government will deliver an additional 14,000 new high level home care packages over four years from the 2018/19 financial year. Home care packages provide assistance with day-to-day activities in the person's home. While this initiative is a step in the right direction, the supply of new home care packages will still be well short of demand. If this is an option you're considering, it's best to get one the front foot now. Your adviser can help you with that.

Further aged care proposals

Navigating aged care options is difficult and confusing. The proposals will help simplify the forms for means testing assessment.

A national legal framework and National Register of Enduring Powers of Attorney will be established in conjunction with the State and Territories. Currently the legal framework and registration for Enduring Powers of Attorney may differ according to the State or Territory. This is one important part of estate planning that your financial adviser can help you with.

What's next?

Most changes must be legislated and passed through Parliament before they apply. If you think you may be impacted by some of the Budget's proposed changes, you should consider seeking professional advice. A financial adviser can give you a clear understanding of where you stand and how you can manage your cash flow, super and investments in light of the proposed changes.

If any of these proposals raise questions, concerns or new opportunities for you, speak with your financial adviser today.