Federal Budget 2018
How will the Budget affect you?

all round financial planning

9 May 2018

Introduction

The Federal Treasurer, the Hon. Scott Morrison MP, delivered his third Federal Budget on 8 May 2018.

Income tax cuts will be delivered over a six-year period, through a combination of tax rate threshold changes and tax offsets.

With regards to superannuation, the maximum number of members in a self-managed superannuation fund will increase, and those with good record-keeping and compliance history may move to a three-yearly audit cycle.

The work test for certain individuals aged 65-74 will be removed, and certain longevity retirement income products may be more concessionally treated under the age pension means testing than originally proposed.

This summary provides coverage of the key issues in relation to you.

Highlights

Personal Income tax

- Income tax cuts through a combination of tax rate threshold changes and tax offsets.
- Tax deductions denied for expenses associated with holding vacant land.
- Minor beneficiaries of a testamentary trust will be taxed under general minor tax rates.

Business owners

- Cash payments to businesses will be restricted to $10,000 or less.

Superannuation

- Self-managed superannuation fund (SMSF) member limit increase.
- SMSF three-yearly audit cycle.
- Work test exemption for those with balances of less than $300,000.
- Individuals with multiple employers able to opt out of Superannuation Guarantee.
- Opt-in basis for default insurance inside superannuation.
- Passive fees, exit fees and inactive super.
- Requiring superannuation fund trustees to offer Comprehensive Income Products for Retirement (CIPRs).

Social Security

- Expansion of the Pension Loan Scheme.
- Extension of the Pension Work Bonus.
- New means testing rules for lifetime retirement income products.

Aged care

- Improving access to residential and home care.

Continued over...

Personal income tax

A number of changes have been proposed to reduce personal income tax on a staggered basis over a six-year period from 1 July 2018.

Increase in tax bracket thresholds

The 32.5 per cent upper threshold will be increased from $87,000 to $90,000 from 1 July 2018. This reduces the tax liability of those earning $90,000 or more by $135.

A further increase in this threshold to $120,000 is proposed from 1 July 2022. In addition, the 19 per cent upper threshold will increase from $37,000 to $41,000 from 1 July 2022.

From 1 July 2024, the Government will extend the top threshold of the 32.5 per cent personal income tax bracket from $120,000 to $200,000, to recognise inflation and wage growth impacts. Taxpayers will pay the top marginal tax rate of 45 per cent from taxable incomes exceeding $200,000 and the 32.5 per cent tax bracket will apply to taxable incomes of $41,001 to $200,000.

Denying deductions for vacant land

Expenses associated with holding vacant land will cease to be deductible from 1 July 2019 and will not be able to be carried forward.

Such expenses for land that was previously vacant will only become deductible when:

- construction is complete, approval for occupancy has been granted and the property is available for rent, or
- the land is used in carrying on a business.

Ensuring tax compliance for individuals

Additional funding will be provided to the ATO to assist its compliance activities around taxpayers that over-claim deductions or entitlements.

The funding will complement and strengthen the ATO's data matching and pre-filling activities.

Improving the taxation of testamentary trusts

Current rules allow minors to be taxed as adults in respect of income paid on assets or cash proceeds held within a testamentary trust.

This new measure, commencing on 1 July 2019, will ensure that minors are taxed in a manner consistent with other income earned and prevent assets being placed into a testamentary trust that were not related to the deceased estate.

Business owners

Economy wide cash payment limit of $10,000

From 1 July 2019, any payments for goods or services to businesses that exceed $10,000 will no longer be allowed to be paid with cash. They can only be paid electronically or via cheque.

Transactions with financial institutions and consumer to consumer (non-business) transactions will not be subject to this cash limit.

Superannuation

SMSF member limit increase

The maximum number of members allowable in self-managed superannuation funds (SMSFs) and small APRA funds will increase from four to six from 1 July 2019.

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SMSF three-yearly audit cycle

SMSFs with a good record-keeping and compliance history will move from an annual audit to a three-yearly audit from 1 July 2019. To qualify the SMSF will be required to have three consecutive clear audit reports and lodged their annual returns on time.

Work test exemption for those with balances of less than $300,000

From 1 July 2019 those aged 65 to 74 with a total superannuation balance of less than $300,000 will be eligible to make voluntary contributions in the financial year following the year they last met the work test.

Eligibility will be assessed based on the individual's total superannuation balances at the beginning of the financial year following the year that they last met the work test.

Individuals with multiple employers able to opt out of Superannuation Guarantee

Individuals who earn over $263,157 from 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. This will allow eligible individuals to avoid unintentionally breaching the concessional contributions cap as a result of receiving SG contributions from multiple employers. Employees who use this measure could negotiate to receive additional income, taxed at marginal tax rates.

Opt-in basis for default insurance inside superannuation

The Government proposes to amend the default insurance arrangement in superannuation funds, which currently requires members to opt-out of cover, to be on an opt-in basis. This change will apply to members:

- with a balance of less than $6,000
- under the age of 25 years, or
- whose account has been inactive (ie hasn't received a contribution) for 13 months or more.

The changes are proposed to take affect from 1 July 2019. A transition period of 14 months will allow affected members to decide whether or not to opt-in.

The Government will also consult publicly on how to balance retirement savings objectives and insurance cover inside super.

Passive fees, exit fees and inactive super

From 1 July 2019, a three per cent annual cap on passive fees will apply to superannuation accounts where the balance is below $6,000. In addition, exit fees will be banned on all superannuation accounts.

Superannuation funds will also be required to transfer inactive accounts (ie that have not received a contribution for at least 13 months) with a balance of less than $6,000 to the ATO. The ATO will proactively reunite inactive accounts with active accounts where the value of the consolidated account will be at least $6,000.

Requiring superannuation fund trustees to offer CIPRs

The Government will introduce a retirement income covenant into the Superannuation Industry (Supervision) Act 1993 that requires trustees to develop a strategy that would help members achieve their retirement income objectives. The covenant will require trustees to offer CIPRs which provide individuals with income for life.

The Government will be releasing a position paper for consultation on this measure shortly.

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Social security

Expansion of the Pension Loan Scheme

From 1 July 2019:

- all Australians of age pension age will be eligible, including full rate age pensioners (currently excluded from the scheme)
- the maximum loan amount will increase from 100 per cent to 150 per cent of age pension.

The loan is paid fortnightly, is tax-free and currently attracts compound interest of 5.25 per cent on the outstanding balance.

Extension of the Pension Work Bonus

From 1 July 2019:

- the bonus will increase from $250 to $300 per fortnight. This means that the first $300 of income from work each fortnight will not count towards the pension income test
- eligibility will be extended to the self-employed, subject to a 'personal exertion' test, reflecting the intention that the bonus not apply to investment income.

New means testing rules for lifetime retirement income products

From 1 July 2019:

- a fixed 60 per cent of all pooled lifetime product payments will be assessed as income
- 60 per cent of the purchase price of the product will be assessed as assets until age 84, or a minimum of 5 years, and then 30 per cent for the rest of the person's life.

Aged care

Improving access to residential and home care

The Government will provide additional funding to deliver a package of measures to improve access to aged care for older Australians. The More Choices for a Longer Life package includes 14,000 new high level home care packages over four years from 2018/19 and 13,500 residential aged care places in 2018/19.

Further information

For more information regarding these announcements please contact:

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