2018 Federal Budget update

The 2018 federal budget has been handed down by Treasurer Scott Morrison

The following is a summary of announcements we feel are relevant to our lovely clients.

Challenger has produced a summary which we have taken the liberty of copying for your information.

Superannuation

Work test exemption From 1 July 2019 the Government will introduce an exemption from the work test for voluntary contributions to superannuation. This is available for the following retirees:

- aged 65-74,
- with superannuation balances below $300,000, and
- in the first financial year that they do not meet the work test.

The exemption will be available for 12 months from the end of the financial year in which they last met the work test.

The work test currently requires individuals who are 65-74 to have worked at least 40 hours within 30 consecutive days in a financial year before they can make a personal contribution to superannuation.

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. Catch-up concessional contributions also remain permissible during the 12 months.

Increasing the maximum number of members in self-managed superannuation funds and small APRA funds

From 1 July 2019, the maximum number of members allowable in a new or existing self-managed superannuation fund (SMSF) or small APRA fund will increase from four to six

Three-yearly audit cycle for some SMSFs

SMSFs currently require an annual audit. To reduce red tape for SMSFs with a history of good record keeping and compliance, the Government will change this to a three-yearly audit requirement.

This measure will start on 1 July 2019 and eligible SMSFs will be those where the trustees have a history of three consecutive years of clear audit reports and have lodged the fund’s annual returns in a timely manner.

Retirement income framework

Means test rules for lifetime income streams

The Government has announced new means test rules for lifetime retirement income stream products. These rules provide clarity and certainty about the future treatment of lifetime products and create a foundation for the development of new retirement income stream products.

The rules announced are proposed to come into effect on 1 July 2019 and the existing rules will remain in place until then.

The announcement confirms grandfathering under the current rules for all clients who purchase lifetime retirement income streams before 1 July 2019. This means retirees who have already purchased lifetime annuities, or purchase them between now and 1 July 2019, will continue to be subject to the current rules.

The proposed rules

Assets Test

60 per cent of the purchase price of a lifetime income stream is assessed as an asset until age 84, or a minimum of five years, and thereafter 30 per cent is assessed as an asset for the rest of a person's life.

Income Test

A fixed 60 per cent of all lifetime income stream payments will be assessed as income.

No change is proposed to the means testing of term and account-based income streams.

New disclosure requirements

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. The Government will consult on new disclosure requirements prior to implementation.

Social Security

Pension Work Bonus

From 1 July 2019, the Pension Work Bonus will increase from $250 to $300 per fortnight with the maximum unused amount that can be accrued increasing to $7,800 (up from $6,500).

In addition, the Government will extend the Pension Work Bonus to those who are self-employed. However, a 'personal exertion' test will be introduced to ensure the Pension Work Bonus is only available to those who are engaged in gainful work and not to those receiving passive income such as income from real estate.

Expanding the Pension Loan Scheme

From 1 July 2019, the Government will expand eligibility to the Pension Loan Scheme to include all Australians of Age Pension age. The Government will also increase the loan amount so that an individual can receive a fortnightly amount up to 150 per cent of the maximum Age Pension rate.

Currently part-pensioners and some self-funded retirees who own a property in Australia can access the non-taxable Pension Loan Scheme. It is available to those who are not entitled to the maximum rate of pension, or any pension, because of the Income Test or Assets Test (but not if they are ineligible under both tests).

Under the scheme, individuals who are Age Pension age can obtain a loan (secured against the individual's property) to increase their fortnightly pension payment from a part-rate or nil rate, up to the maximum pension rate.

Other existing rules including age-based loan to value ratio limits, ability to repay the loan at any time or on the sale of the property and fortnightly compounding of interest at a rate of 5.25 per cent will continue to apply.

Introduce an Income Test for Carer Allowance

From 20 September 2018 the Government will introduce a $250,000 annual Income Test threshold for the Carer Allowance and Carer Allowance (child) Health Care Card.

Currently, individuals who are providing care and attention to someone who has a disability or is frail with age can be eligible for:

- a non-means tested Carer Allowance of $127.10 per fortnight and a Health Care Card if care is provided to someone who is aged 16 or older or a child under age 16 with higher needs.
- a Health Care Card only if care is provided to a child under age 16 with lower needs.

A bill was introduced into parliament on 28 March 2018.

Taxation

<u>Personal Income Tax Plan</u>

The Government will introduce a seven year Personal Income Tax Plan. This includes:

Personal income tax bracket thresholds

Over a seven year period commencing in 2018-19 the top threshold for the personal income tax brackets will increase as illustrated in the table below. After seven years the personal income tax brackets will be simplified to four brackets so the majority of taxpayers will be on a marginal tax rate of 32.5 per cent or less.

Rate	2017-18	2018-19, 2019-20, 2020-21, 2021-22	2022-23, 2023-24	2024-25
Nil	Nil - $18,200	Nil - $18,200	Nil - $18,200	Nil - $18,200
19 per cent	$18,201 - $37,000	$18,201 - $37,000	$18,201 - **$41,000**	$18,201 - **$41,000**
32.5 per cent	$37,001 - $87,000	$37,001 - **$90,000**	**$41,001** - **$120,000**	**$41,001** - **$200,000**
37 per cent	$87,001 - $180,000	**$90,001** - $180,000	**$120,001** - $180,000	N/a – bracket removed
45 per cent	$180,000+	$180,000+	$180,000+	**$200,000+**

<u>Low and Middle Income Tax Offset</u>

A new non-refundable Low and Middle Income Tax Offset (LMITO) will be introduced. The LMITO will be a temporary measure applying from 2018-19 and phasing out in the 2021-22 financial year. As illustrated in the following table the maximum annual offset will be $530 and will cut out for those with a taxable income above $125,333 per annum.

Taxable income	2017-18	2018-19, 2019-20, 2020-21, 2021-22	2022-23, 2023-24	2024-25
Nil to $37,000	N/a	Up to $200	N/a	N/a
$37,001 - $47,999	N/a	$200 + [(taxable income - $37,000) x 3 cents]	N/a	N/a
$48,000 - $90,000	N/a	$530	N/a	N/a
$90,001 - $125,333	N/a	$530 – [(taxable income - $90,000) x 1.5 cents]	N/a	N/a

<u>Low Income Tax Offset</u>

From 1 July 2022 the annual Low Income Tax Offset (LITO) will increase to $645 and will cut out for those with a taxable income above $66,667 per annum.

Taxable income	2017-18	2018-19, 2019-20, 2020-21, 2021-22	2022-23, 2023-24	2024-25
Nil to $37,000	Up to $445	Up to $445	Up to $645	Up to $645
$37,001 - $41,000	$445 – [(taxable income - $37,000) x 1.5 cents]	$445 – [(taxable income - $37,000) x 1.5 cents]	$645 – [(taxable income - $37,000) x 6.5 cents]	$645 – [(taxable income - $37,000) x 6.5 cents]
$41,001 - $66,667	$445 – [(taxable income - $37,000) x 1.5 cents]	$445 – [(taxable income - $37,000) x 1.5 cents]	$385 – [(taxable income - $41,000) x 1.5 cents]	$385 – [(taxable income - $41,000) x 1.5 cents]
$66,667+	Nil	Nil	Nil	Nil

Extending the $20,000 instant asset write-off

For a further 12 months until 30 June 2019, small businesses with aggregated annual turnover of less than $10 million may continue to immediately deduct purchases of eligible assets costing less than $20,000 first used or installed ready for use by 30 June 2019. Some assets are ineligible e.g. horticultural plants and in-house software.

Assets valued at $20,000 or more (which cannot be immediately deducted) can continue to be placed into the small business simplified depreciation pool (the pool) and depreciated at 15 per cent in the first income year and 30 per cent each income year thereafter. The pool can also be immediately deducted if the balance is less than $20,000 over this period (including existing pools).

The current 'lock out' laws for the simplified depreciation rules (these prevent small businesses from re-entering the simplified depreciation regime for five years if they opt out) will continue to be suspended until 30 June 2019.

LifeTime Financial Group are specialist (holding appropriate accreditations) advisors who are ideally positioned to assist you. Anthony Stedman and Adam Watts both hold specialist accreditations with SPAA as specialist Self-Managed Superannuation planners.

Would you like to discuss your personal position further with one of our highly qualified financial planners? Why not call us today on 03 9596-7733.

There is no cost or obligation for our initial conversation/meeting.

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