# Federal Budget 2018

8 May 2018

## Treasurer has one eye on an Election

The Federal Treasurer tonight handed down the 2018/2019 Budget, clearly with an eye on the next Federal Election, due to held within 12 months.

Whilst the announcements tonight clearly give an indication of the Government's fiscal intentions, it still needs to deal with a hostile Senate and the public who will ultimately determine which side of politics will govern for the next 3 years.

The centrepiece of the Budget was a focus on improved funding for aged care services with a particular attention to greater access to at-home aged care packages. Whilst there might be funding for the services, will there be the availability of trained professionals to deal with the increase in demand for services?

The key measures announced tonight for Private Clients are as follows:

## Aged Care Funding Increases

The Government announcements aim to implement policies to encourage people to stay at home longer and to improve access to higher quality aged care services.

The practical implication of this long overdue funding boost is for you to consider for yourself or a loved one whether it is time to register for access to a Federal Government Aged Care Package. Currently the queue for Aged Care Packages (i.e. Government Subsidised home care packages) is months long.

Whilst you may not necessarily need the package now it is important to be registered in the "System". The additional funding might improve the accessibility of these packages. Review the Government's Websites at www.myagedcare.gov.au and www.agedcare.health.gov.au for further information.

## Targeted Income Tax Cuts for Middle Income Earners

Tonight's Budget offered targeted personal income tax cuts for whom the Government classify as "Middle Income Earners".

From 1 July 2018, the Treasurer has offered a very small income tax cut, raising by $3,000 to $90,000 the 32.5% tax bracket.

The maximum tax benefit under this measure is $136.

This very modest tax cut has been coupled with a new rebate, known as the LMITO ("Low Middle Income Tax Offset"). The LITMO will offer a further income tax rebate of $200 to Taxpayers earning less than $37,000, moving to a maximum of $530 for Taxpayers earning up to $90,000. This is in addition to the existing Low-Income Rebate of $445 for Taxpayers earning less than $37,000.

This means the effective tax-free income threshold from 1 July 2018 will be $21,595.

For those aged over 65 the tax-free income threshold from 1 July 2018 will be $33,332.

For 2018/19 a Taxpayer earning $90,000 will enjoy a total tax saving of $665.

A Taxpayer earning $200,000 will receive a $136 tax saving for the 2018/19 year.

The Treasurer also put forward a detailed plan of further individual tax cuts through to 1 July 2024.

The author of this Brief is treating this plan with a healthy level of scepticism and wish the Treasurer the best of luck with these "promises" given there will be a least two Federal elections prior to 1 July 2024.

Below are the current and proposed new resident Australian tax tables:

### Current 2017/18 Resident Australian Income Tax Rates:

| Taxable Income $ | Rate $ | % on Excess | Medicare % | Total % |
|---|---|---|---|---|
| 0 – 18,200 | Nil | Nil | 0% | 0% |
| 18,201 – 37,000 | Nil | 19% | 2% **a** | 21% |
| 37,001 – 87,000 | 3,572 | 32.5% | 2% | 34.5% |
| 87,001 – 180,000 | 19,822 | 37% | 2% | 39% |
| 180,001 + | 54,232 | 45% | 2% | 47% |

### Proposed 2018/19 Resident Australian Income Tax Rates

| Taxable Income $ | Rate $ | % on Excess | Medicare % | Total % |
|---|---|---|---|---|
| 0 – 18,200 | Nil | Nil | 0% | 0% |
| 18,201 – 37,000 | Nil **b** | 19% | 2% **a** | 21% |
| 37,001 – 90,000 | 3,572 **c** | 32.5% | 2% | 34.5% |
| 90,001 – 180,000 | 20,796 | 37% | 2% | 39% |
| 180,001 + | 54,096 | 45% | 2% | 47% |

**a:** The Medicare Levy is not payable where your taxable income is less than $21,655 (2017/18) or $21,980 (2018/19)

**b:** New Low Middle Income Tax Offset (LMITO) of $200 available to Taxpayers whose taxable income is less than $37,000

**c:** A new Low Middle Income Tax Offset (LMITO) of up to $530 available to Taxpayers whose taxable income is between $37,000 and $90,000

# Superannuation Changes

## Increase in Maximum Membership of Self-Managed Superannuation Funds

The Minister for Revenue and Financial Services, Kelly O'Dwyer, prior to the Budget announced the Government will change the Superannuation Laws by expanding the limit of the number of members in Self-Managed Superannuation Funds from the current limit of 4 to 6.

Whilst on the surface that may encourage parents to include their children as members of their Self-Managed Superannuation Funds, caution needs to be exercised as this will have significant asset succession issues on who ultimately controls your SMSF.

All members of Self-Managed Superannuation Funds need to be either a Trustee or a Director of the Company that is acting as the Trustee of the Superannuation Fund. Accordingly, adding your Adult aged children as additional members of your Self-Managed Superannuation Fund should be actioned with caution.

### SMSF's have a three-year Statutory Audit Cycle from 1 July 2019 - is this good or bad?

SMSF's with a good record keeping and compliance history will have three yearly requirements for audits. This is currently an annual requirement.

Whilst on the surface this may appear to be a cost saving, the measure will increase the record keeping requirements for SMSF Trustees between statutory audits noting records must be made available to your Statutory Auditor every three years rather than annually. This has a proposed commencement date of 1 July 2019.

### Superannuation Guarantee and multiple employers – Reducing Excess Concessional Cap Breaches

For those individuals with incomes over $263,157 and multiple employers, they can nominate that their wages from certain nominated employers can be exempted from Superannuation Guarantee from 1 July 2018.

This is a practical solution to the issue where individuals take on additional employment positions which result in unavoidable excess Concessional Contributions Tax.

Employees will be able to negotiate with their nominated employers to receive the amounts as wages rather than compulsory Superannuation Guarantee contributions.

### Work Test Changes to enable superannuation contributions from 1 July 2019 helping recent Retirees

Individuals aged 65-74 who total Superannuation balance is under $300,000 will be able to continue to contribute to Superannuation for 12 months after they cease to satisfy a work test.

At present a work test is required where Contributions are made for those aged 65 to 74 (40 hours of gainful employment in 30 consecutive days in a financial year).

### Investment Strategies – Review requirement for Pension Mode

Legislative changes will be made to the Superannuation Act to include a covenant that will mandate trustees to prescribe written retirement income strategy for Superannuation Fund members. We are unsure whether this will apply to Retail Funds only or include SMSF's.

Presumably the strategy will cover how the Fund intends to meet the obligation to pay retirement benefits to its members.

More red tape!

### Insurance Changes – Retail and Industry Superannuation Fund

Insurance within superannuation will move from being a "Default" system to being offered on an opt-in basis for the following members:

- Members under age 25 years of age;
- Members with less than $6,000; and
- members whose accounts have not received a contribution in 13 months and are inactive.

The changes will take effect on 1 July 2019.

## Taxation Integrity Measures

### Introduction of an Economy wide cash payment limit

From 1 July 2019 the Government will introduce a limit of $10,000 for cash payments made to businesses. This is to reduce the tax drain from the Black Economy.

# Business Tax Changes

## $20,000 Instant Write off for Small Business Taxpayers (Businesses with Turnover Less than $10m) extended to 1 July 2019

The Government will extend the immediate write off for small businesses for the purchase of depreciating assets costing less than $20,000 or less to 30 June 2019.

Assets valued at $20,000 or more can continue to be placed into the small business simplified depreciation pool and deprecated at 15% in the first year and 30% for each subsequent year. The pool is immediately written off once its written down value is less than $20,000.

## Non Arms' Length loans from Companies - Division 7A Changes

The key change is from 1 July 2019 unpaid trust distributions to Companies will be treated as subject to Division 7A. This change accelerates the need to address unpaid trust distributions to companies by one year either by:

- paying the distribution to the company;
- paying a dividend that is used to repay the loan; or
- placing the unpaid distribution on a Division 7A compliant loan that is repayable over 7 years if unsecured or 25 years if secured over property.

The Government has deferred substantive amendments to Division 7A recommended by the Board of Taxation by one year to 1 July 2019. The amendments recommended included:

- providing a self-correcting mechanism for inadvertent breaches of Division 7A;
- safe harbor rules that allowed private use of company assets by charging a statutorily prescribed interest rate by the asset's value;
- standard fixed interest rate 10-year loans.

Watch this space for detailed changes to Division 7A!

## Tax Deductions for Vacant Land Holdings will be disallowed

From 1 July 2019, deductions associated with holding vacant land (e.g. interest, rates and taxes) will be denied. Excluded will be vacant land used to carrying on a business of primary production. The deductions will be denied until property has received approval to be occupied and is available for rent.

Once the deduction is denied, it cannot be carried forward to future years and will not be included in the cost base of the land.

The measure is targeted to affect land banking and vacant land held for property development.

## Licensing your Name Likeness and Image – No more Tax Advantages!

The Federal Government tonight announced that from 1 July 2019 income derived from the licencing of a person's marketing rights must be assessed in the hands of the individual.

Accordingly, the licencing of a person's marketing rights from 1 July 2019 will no longer provide a sportsperson the ability to have such income derived by a related Trust or Company for tax purposes.

Whilst there is no detail presumably this will also apply to third party commercial arrangements as well as the apportionment of income derived through Clubs. It will presumably apply to individual type sportspersons (eg Tennis Players, Golfers etc.) as well as Team sportspersons.