

2018 Budget Summary

Treasurer Scott Morrison handed down his third Federal Budget last night. While the scale of the announcements this year were nowhere near as significant as previous, there were a range of announcements that you should be aware of.

The key take outs of the 2018 Budget were as follows:

- The maximum number of members allowable in a Self Managed Superannuation Fund will be increased.
- Audit changes for SMSF's
- Superannuation work test changes.
- Super Guarantee Contribution Opt-Out option for high income earners.
- Income tax cuts will be delivered over a 7-year period.
- Pension Work Bonus increase.

It is important to note that the Budget announcements are only proposals at this stage, until legislated.

1. Self-Managed Superannuation Fund (SMSF) Changes

SMSF Membership - Effective 1st July 2019

SMSF's will be able to increase the number of members from 4 to a maximum of 6. The increase membership will apply from 1st July 2019. Some SMSF's will need to update their trust deeds to ensure they can include additional members.

JBS View: This may appeal to some families, particularly in respect of intergenerational wealth transfer.

SMSF Three Year Audit Cycle - Effective 1st July 2019

SMSF's that have clear audit reports over three consecutive years and have lodged the fund's annual returns in a timely manner will be able to move to a three-year audit cycle. This measure should reduce compliance costs.

JBS View: The Government will consult with industry stakeholders on this proposal, and it will be interesting to see what this consultation brings.

2. Superannuation Changes

Superannuation Guarantee Opt Out - Effective 1st July 2018

Individuals who have multiple employees and whose employment income exceeds \$269,157 per year will be able to opt-out of superannuation guarantee payments that would otherwise result in excess concessional contributions. Employees may be able to negotiate higher income in lieu of superannuation guarantee contributions

JBS View: This will be a welcome change for many employees on higher incomes with multiple roles.

Work Test Exemption - Effective 1st July 2019

Superannuation members aged between 65 – 74 who have superannuation balances below \$300,000 will be able to make a voluntary contributions to super in the first year where they do not meet the work test requirements (*current work test: if 65 or over, you need to work 40 hours in a 30 day period during the financial year in order to make voluntary contributions to super*).

JBS View: This will provide retirees with low super balances additional flexibility to boost their retirement assets.

From 1st July 2019, the Government will introduce a 'Protecting Your Super Package' covering fees and insurance arrangements.

Passive Fees - The Government will introduce a cap on fees for superannuation accounts with low balances. Where a superannuation balance is below \$6,000, the maximum amount of fees that can be deducted in the following six month period is 1.5%, or \$90 per six months.

Exit Fees – Exit fees will be banned on all superannuation accounts, regardless of the account balance.

Insurance – Superannuation funds will be prohibited from automatically providing insurance to certain members. The members who must opt-in for insurance include:

1. New accounts for a person under age 25.
2. Members with account balances below \$6,000.
3. Members with account(s) that have been inactive for 13 months.

Members will still be able to opt-in for insurance, however underwriting may be required.

JBS View: This package is designed to reduce the erosion of superannuation funds with small balances. We would like to see superannuation funds increase their education around the value of insurance.

Advice and constant contact with your super provider (or via JBS) will be required as super accounts set up for the purpose of insurance, may well find themselves classified "inactive" which could have detrimental consequences. It could also create an issue for young people who opt out and then become uninsurable.

3. Taxation - Individuals

Changes to Marginal Tax Rates - Effective 1st July 2018

There are a number of proposed changes to marginal tax rates over the next 7 years:

- From 1st July 2018, the 32.5% upper threshold will increase to \$90,000.
- From 1st July 2022, the 32.5% upper threshold will increase from \$90,000 to \$120,000.
- From 1st July 2022, the 19% upper threshold will increase from \$37,000 to \$41,000.
- From 1st July 2024, the 32.5% upper threshold will increase from \$120,000 to \$200,000, and the 37% tax rate will be removed.

From 1st July 2024, marginal tax rates are proposed to be:

Taxable Income	Marginal Tax Rate
Up to \$18,200	0%
\$18,201 - \$41,000	19%
\$41,001 - \$200,000	32.5%
\$200,001+	45%

JBS View: These changes are expected to simplify the marginal tax rate system and reduce the amount an individual pays in tax. Once all changes have occurred, the Government expects 94% of taxpayers will be on a marginal tax rate of 32.5% or less.

Low & Middle Income Tax Offset - Effective 1st July 2018

The Government will introduce the low and middle income tax offset which will apply from the 2019 financial year to the 2022 financial year. The offset will be applied on a tiered basis as follows:

Taxable Income	Offset Available
Up to \$37,000	\$200 flat offset
\$37,001 - \$48,000	\$200 <i>plus</i> 3 cents for every dollar over \$37,000
\$48,001 - \$90,000	\$530 flat offset
\$90,001 - \$125,333	\$530 <i>less</i> 1.5 cents for every dollar over \$90,000
\$125,334+	No rebate available

Medicare Levy Rate -

As part of the 2017 / 18 Budget, the Government proposed to increase the Medicare Levy to 2.5% from 1st July 2019. This proposal has now been reversed and the Medicare Levy will remain at 2%.

JBS View: A nice win by keeping the rate the same as it is today.

4. Taxation – Businesses

\$20,000 Instant Asset Write-Off Extended

The Government has proposed to extend the instant asset write-off for business assets up to \$20,000 until 30th June 2019. This measure was due to expire at the end of this financial year. The measure allows businesses with aggregated turnover of less than \$10,000 to immediately deduct the purchase value of eligible assets costing less than \$20,000.

JBS View: This measure will continue to improve cash flow for small businesses with the ability to claim a higher amount of deductions on purchasing eligible assets.

5. Social Security

Increase to the Pension Work Bonus from \$250 to \$300 per Fortnight - Effective 1st July 2019

This bonus is an income test concession for age pensioners. Currently, the first \$250 per fortnight of employment income is not counted in the Age Pension income test.

From 1st July 2019, the Pension Work Bonus will increase from \$250 to \$300 per fortnight and extend eligibility to those who are also self-employed.

JBS View: By enabling self-employed people to use this concession, it encourages those people to continue working.

Expansion of the Pension Loans Scheme (PLS) - Effective 1st July 2019

Currently, the Government offers a reverse mortgage through the PLS to part-pensioners to allow them to 'top up' their Age Pension to the maximum rate. This provides an option for Australians who have equity in real estate to supplement their income.

From 1st July 2019, the Government proposes to:

- Expand eligibility of the PLS to all Australians of Age Pension age including maximum-rate age pensioners, and
- Increase the maximum allowable combined Age Pension and PLS income stream to 150% of the Age Pension rate.

Full rate pensioners will be able to increase their income by up to \$11,799 (singles) or \$17,787 (couples) per year. These loan amounts are non-taxable.

Existing age-based loan-to-value ratio limits will continue to apply. This means that PLS holders will not be able to owe the Government more than what their home is worth. The current PLS interest rate of 5.25% will continue to apply.

Repayment of the loan generally occurs once the house is sold, however it can be repaid at any time.

6. Other Measures Announced

The following outlines a list of other measures that were announced which may impact you:

- Disallowing deductions for vacant land.
- Income tax exemption for certain veteran payments.
- Increase to Medicare Levy Low Income thresholds.
- Additional residential aged care places.
- Carer Allowance now means tested.

To discuss these further please contact one of the team at JBS on (03) 8677 0688.