Investor Insight 74 – April 2019 (Federal Budget)

Introduction

If there is a budget allocation associated with fast train projects, it must be election time!

Last night the Federal Government handed down its 2019-20 Budget. Given there is shortly to be a Federal Election, it's unsurprising that the announcements centred on re-election friendly promises such as tax cuts and increased funding to healthcare, aged care services and infrastructure.

Some of the key Budget announcements of interest to investors include:

- immediate tax cuts for low-to-middle income earners to help ease the cost of living, and lowering the 32.5% tax rate to 30% from 1 July 2024
- the ability for people aged 65 and 66 to contribute to super without meeting the work test requirements, to align with the Age Pension age, from 1 July 2020
- an increase to the age limit for spouse contributions, from 69 to 74, from 1 July 2020
- a significant increase to funding for health and aged care services

Remember these are only proposals at this stage - each of the proposals must be passed by Parliament before they're legislated.

Tax
Personal income tax cuts
Personal income tax cuts that were announced in last year's Federal Budget will be extended. This is proposed to be achieved as follows:

- From 1 July 2018 to 30 June 2022 – increase the Low and Middle Income Tax Offset ("LMITO") from a maximum of $530 to $1,080 ($2,160 for dual income families). The LMITO (which is in addition to the Low Income Tax Offset or "LITO") will be received after individuals lodge their tax return for the relevant income years.
- From 1 July 2022:
  - the upper threshold for the 19% tax bracket will increase from $41,000 to $45,000, and

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  - the LITO maximum amount will increase from $645 to $700. The increased LITO will be withdrawn at a rate of 5 cents per dollar between taxable incomes of $37,500 and $45,000. LITO will then be withdrawn at a rate of 1.5 cents per dollar between taxable incomes of $45,000 and $66,667.
- From 1 July 2024, the 32.5% marginal tax rate will be reduced to 30%. The 37% tax bracket will also be abolished as per the Government's already legislated plan.

The proposed marginal tax rates and thresholds are as follows:

2018-19 TO 2023-24

Tax rates	**2018-22**	**2022-24**
Nil	Up to $18,200	Up to $18,200
19%	$18,201-$37,000	$18,201-$45,000
32.5%	$37,001-$90,000	$45,001-$120,000
37%	$90,001-$180,000	$120,001-$180,000
45%	Above $180,000	Above $180,000

FROM 1 JULY 2024

Tax rates	**2024-25 onwards**
Nil	Up to $18,200
19%	$18,201-$45,000
30%	$45,001-$200,000
45%	Above $200,000

Increasing the Medicare Levy low-income thresholds
Effective 1 July 2018
The Government will increase the Medicare levy low-income thresholds for singles, families, seniors and pensioners from the 2018-19 income year.

The following table compares the level of taxable income below which no Medicare Levy is payable.

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Income category	2017-18	2018-19
Taxpayers entitled to seniors and pensioners tax offset (SAPTO)		
Individual	$34,758	$35,418
Married or sole parent	$48,385	$49,304
For each dependent child or student, add:	$3,406	$3,471
All other taxpayers		
Individual	$21,980	$22,398
Couple /sole parent (family income)	$37,089	$37,794

Increase and expand access to the instant asset write-off
Effective 2 April 2019 to 30 June 2020
The Government is proposing to increase and expand access to the instant asset write-off from Budget night until 30 June 2020. These changes are in addition to a measure announced on 29 January 2019 that is currently before Parliament and yet to be legislated.

The Government announced two changes in the Budget:

- increasing the instant asset write-off threshold from the proposed $25,000 to $30,000 for small businesses (with aggregated annual turnover of less than $10 million)
- expanding the instant asset write-off measure to medium sized businesses with aggregated annual turnover of $10 million or more, but less than $50 million.

This means both small businesses and medium sized businesses can immediately deduct purchases of eligible assets costing less than $30,000 that are first used, or installed ready for use, from Budget night to 30 June 2020. Medium sized businesses must also acquire these assets after Budget night to be eligible as they have previously not had access to the instant asset write-off.

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The $30,000 threshold applies on a per asset basis. This means eligible businesses can instantly write off multiple assets.

Arrangement prior to Budget night (2 April 2019)
Prior to Budget night, the Government had legislated to extend the existing $20,000 instant asset write-off for small businesses (with aggregated annual turnover of less than $10 million) to 30 June 2019.

On 29 January 2019, the Government made a further announcement to increase the instant asset write-off threshold for small businesses from $20,000 to $25,000 from 29 January 2019 to 30 June 2020. A Bill containing this measure is currently before Parliament and yet to be legislated.

These changes interact with the changes announced as part of last night's Budget. This means that, when both measures are legislated, the below instant write-off thresholds apply to small businesses:

Applicable threshold	
Small businesses (with aggregated turnover of less than $10 million)	
Until 28 January 2019	$20,000
From 29 January 2019 to Budget night	$25,000
From Budget night to 30 June 2020	$30,000
Medium sized businesses (with aggregated turnover of $10 million or more but less than 50 million)	
From Budget night to 30 June 2020	$30,000

This measure previously only applied to small businesses. The expansion of this measure means that medium sized businesses will also be able to access the instant write-off measure for eligible assets purchased after Budget night.

This is in addition to the already legislated reduction to the corporate tax rate to 25% by 2021-22 income year for small to medium-sized companies with aggregated turnover of less than $50 million.

Tax integrity – deferring the start date of proposed Division 7A amendments Effective date 1 July 2020
The Government will defer the start date of the 2018-19 Budget measure, *Tax Integrity — clarifying the operation of the Division 7A integrity rule*, from 1 July 2019 to 1 July 2020.

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The Government issued a consultation paper in October 2018 seeking stakeholder views on the proposed implementation approach for the amendments to Division 7A of the *Income Tax Assessment Act 1936*. The Government indicated that it has received valuable feedback from stakeholders which highlighted that this is a complex area of the tax law and raised implementation issues that warrant further consideration.

Delaying the start date by 12 months will allow additional time to further consult with stakeholders and to refine the Government's implementation approach, including to ensure appropriate transitional arrangements so taxpayers are not unfairly prejudiced.

Superannuation
No work test for voluntary contributions extended to age 66
Effective 1 July 2020
The Government will amend the superannuation contribution rules to allow people aged 65 and 66 to make voluntary contributions to superannuation without meeting the work test. This will align the work test with the qualifying age for Age Pension (scheduled to reach 67 from 1 July 2023).

Under current legislation, for a client aged 65-74 to be eligible to a make a voluntary superannuation contribution they must have already satisfied the work test during the financial year the contribution is made. The work test is satisfied where a client has been gainfully employed for 40 hours in a period of 30 consecutive days during the financial year. Alternatively, from 1 July 2019 clients may instead satisfy the work test exemption to make voluntary contributions.

Voluntary contributions are all contributions other than employer contributions required under Super Guarantee law or an industrial award or agreement (i.e. mandated employer contributions).

Voluntary contributions that require the work test to be satisfied include:

- personal after tax (non-concessional) or tax-deductible (concessional) contributions
- voluntary employer contributions (e.g. salary sacrifice that is not counted towards the employer's SG obligations)
- spouse contributions made by the member's spouse on their behalf.

This measure effectively allows clients to make voluntary contributions up to the scheduled Age Pension age of 67, regardless of whether they are working.

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Another proposal to align rules with Age Pension age was announced in MYEFO in December 2018, where the Government extended concessional tax treatment for genuine redundancy payments and early retirement scheme payments to Age Pension age.

We may see more proposals to align rules with Age Pension age in the future.

Bring-forward rule extended to age 66
Effective 1 July 2020
People aged under 67 at any time during a financial year (e.g. 65 and 66 year olds) will be able to trigger the non-concessional bring-forward rule.

Currently, clients must be under age 65 at any time during a financial year to trigger the bring- forward rule. The bring forward rule allows a client to make up to three years' worth of non- concessional contributions, which are capped at $100,000 a year, to their superannuation fund in a single year.

The ability to use the bring-forward rule will remain subject to the client's total superannuation balance on 30 June prior to the financial year of the contribution.

Spouse contributions extended to age 74
Effective 1 July 2020
Currently, to be eligible to make a spouse contribution, the receiving spouse must be under age 70 at the time of the contribution and must meet the work test if they are between age 65 to 69.

Under the proposed changes, spouse contributions can be made where the receiving spouse is under age 75. In addition, where the receiving spouse is age 65 or 66 they no longer need to meet a work test. A receiving spouse will need to meet the work test from age 67.

The ability to make spouse contributions for a further five years extends the opportunity to equalise superannuation balances between spouses and extends the period a spouse may claim a tax offset for spouse contributions.

Exempt current pension income ("ECPI") calculation
Effective 1 July 2020
The Government has announced that it will amend the *Tax Act 1997* to allow the trustees of super funds, such as self-managed super funds, with interests in both the accumulation and retirement phases in a year to choose their preferred method of calculating ECPI.

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Under current rules, a fund will be deemed to be utilising the segregated assets method during any period where 100% of the fund's interests are in the retirement phase. This can lead to additional cost and complexity where a member contributes part way through a year as it could result in the fund needing to use both the segregated and unsegregated methods in the one financial year.

The Government also announced that it will remove the requirement for superannuation funds to obtain an actuarial certificate when calculating ECPI using the proportionate method where all members of the fund are fully in the retirement phase for all the income year.

This announcement means trustees of SMSFs that are 100% in the retirement phase, but which are precluded from utilising the segregated assets method (due to having disregarded small fund assets), will no longer need to obtain an actuarial certificate to calculate the fund's ECPI.

The announcement to allow trustees of super funds with interests in both the accumulation and retirement phases in a year to choose their preferred method of calculating ECPI effectively formalises prior industry practice.

Protecting Your Super Package – putting members' interests first
Effective 1 October 2019
The Government has introduced a Bill to give effect to contentious elements of the Protecting Your Super measures which were excised from the original Bill (which has already been legislated).

In summary, this Bill proposes to prohibit trustees from offering insurance on an opt-out basis for:

- new members under the age of 25 who open an account on or after 1 October 2019, and
- members with balances less than $6,000.

These measures are proposed to commence on 1 October 2019 if successfully legislated.

Social Security

Energy Assistance Payment

Effective by 30 June 2019
Social security pension recipients will receive a one-off Energy Assistance Payment by the end of the current financial year.

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The payment will be $75 for singles and $125 for couples combined and will be exempt from income tax.

People who are Australian residents and eligible for the following payments as at 2 April 2019 will automatically receive the payment - Age Pension, Disability Support Pension, Carer Payment and Parenting Payment Single.

Also, recipients of some Department of Veterans Affairs payments will be eligible.

Aged Care
Increased funding for aged care
Effective 1 July 2018
The Government will provide $724.8 million over five years from 2018-19 to fund improvements in residential and home care services, including:

- a one-off increase to the basic subsidy for residential aged care recipients from 2018-19 and 13,500 additional residential aged care places
- 10,000 additional home care packages from 2018-19. Home care packages to be provided across the four package levels
- an increase to the dementia and the veterans' home care supplements
- funding to strengthen aged care regulation.

Extension of Commonwealth Home Support Programme
Effective 1 July 2020
The Government will provide $5.9 billion to extend the Commonwealth Home Support Programme (CHSP) funding arrangements.

Funding for the CHSP was due to cease on 30 June 2020. The new funding will extend the program until 30 June 2022.

The CHSP contributes to essential home support services, such as meals (Meals on Wheels), personal care, nursing, domestic assistance, home maintenance, and community transport, to assist older people to keep living independently in their own home.

Simplification of aged care forms
Effective May 2019
The Government announced it will simplify the means testing forms that need to be completed when entering residential aged care.

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Approximately 110,000 residents will no longer have to complete means testing forms if they do not own a home and receive income support such as the Age Pension.

For new residents with straight forward financial affairs, they will complete a short form that is a few pages long.

Those with complex affairs will complete a form with half the questions they previously had to.

Hamilton Wealth Management is a Fee for Service, Wealth Management business and as such our advice is built around the conviction to our process and philosophy and our strong belief in diversification.

We would be happy to discuss this further with you, please don't hesitate to contact us.	Will Hamilton CEO and Managing Partner P +61 3 9275 8808	Ian Gillies COO and Founding Partner P +61 3 9275 8809