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Federal Budget 2019/20

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Well if you can say one thing about this Federal Budget – it's inoffensive.

A nice tax cut for voters (sorry, we mean low and middle income earners) that hits the back pocket pretty well immediately – tick. The $1,080 low and middle income tax offset applies to the 2018/19 financial year, so money goes straight into the wallet by July. The Government hopes voters will be happily planning what to spend it on come the May election.

Infrastructure spend that goes directly to electorates in need – tick.

Small and medium-sized businesses get an increase to the instant asset write-off, up from $25,000 to $30,000 – tick. But can you buy a new ute for that?

Age pensioners, veterans and parenting payment recipients get a one-off energy payment sugar hit of $75 (for singles) and $125 (per couple) if they're entitled to benefits on Budget night. Yet again, Newstart recipients miss out.

Of course, no Budget in the last 30 years has missed the opportunity to include some changes to super. But in the 2019 Budget the changes are sensible and inoffensive. At last, the Government has twigged that if you raise the Age Pension age to 66 (going up to age 67) then you need to let people contribute to super up to that age as well. Raising the age where spouse contributions can be made to age 74 is also sensible and fair. No one remembers why spouse contributions had to stop at age 70 anyway.

Self-managed super funds (SMSFs) will benefit from having streamlined treatment of exempt current pension income (ECPI), and the Government will sensibly remove the requirement for an actuarial certificate where all members are in retirement pension phase, a bit of a no-brainer.

Of course, the Government has also realised some of its best work has been back-office changes and they plan to continue with this theme. Single Touch Payroll employment income data coming directly from employers will be passed onto Government agencies like Centrelink for including in the employee's income assessment. The Government expects this will save more than $2 billion over the next five years (Big Brother is definitely watching so make sure your clients have reported their income correctly).

Just as the old eyes start glazing over at the inoffensive nature of this Budget, we note the extra money to be allocated to the Australian Securities Investment Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) for implementing the Government's response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission). Consisting of $404.8 million to ASIC over four years and more than $145 million to APRA over the same period, all to reinforce their supervisory and enforcement capabilities. It looks like more interesting times are ahead for financial services.

For advisers and clients this is an election Budget – and we don't know how much of it will get up (if any of it). If anything, the inoffensive and sensible nature of most of the proposals are its strengths. Nothing controversial to see here and hopefully the Australian Labor Party acknowledges this. The irony is that for the first time in living memory Australians will be taking as much interest in the Opposition Leader's Budget reply speech on Thursday as we did with the Treasurer's Budget last night.

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Superannuation

Work test

From 1 July 2020, there will be no work test requirement for clients aged 65 and 66 when making concessional and non-concessional contributions.

Three-year bring-forward

The three-year bring-forward for non-concessional contributions is also proposed to be extended to clients aged 65 and 66 from 1 July 2020.

TechConnect comment

These measures sensibly align super contribution rules with access to the Age Pension at age 67 from 1 July 2023.

Spouse contributions

From 1 July 2020, the age limit for receiving spouse contributions will increase to age 74, up from age 69, if the work test is met.

TechConnect comment

This measure may assist many clients who are in a couple to even up their super balances.

Extending tax relief for merging super funds

Transitional measures, set to expire on 30 June 2020, allowing merging super funds to carry-over capital and income losses and defer tax consequences on transfers of assets will be extended permanently.

This measure is consistent with the Productivity Commission's recommendations from their review into the efficiency and competitiveness of super. Further consolidation of the super industry will help address inefficiencies by reducing costs, managing risks and increasing scale, leading to improved retirement outcomes for members.

TechConnect comment

A welcome measure for larger funds who may be considering acquisitions or mergers in the near future.

Exempt current pension income

From 1 July 2020, the Government proposes to streamline the calculation of ECPI which will simplify reporting and reduce costs. Funds with interests in both the accumulation and retirement phases during an income year will be able to choose their preferred method of calculating ECPI.

From 1 July 2020, the Government will also remove the requirement for funds to obtain an actuarial certificate when calculating ECPI for funds that have 'disregarded small fund assets', where all members of the fund are fully in the retirement phase for all of the income year.

TechConnect comment

The simplification measure will enable trustees to return to the historically used single ECPI calculation methodology. However, some trustees may continue to use the current methodology to obtain a more favourable outcome.

Government agency funding

The Government will provide additional funding for tax integrity measures and to facilitate the Government's response to the Royal Commission.

The additional funding includes:

Australian Taxation Office

Additional resources for the Australian Taxation Office (ATO) to increase activities to recover unpaid tax and superannuation liabilities. These activities will focus on larger businesses and wealthy individuals to ensure on-time payment of tax and superannuation liabilities. This will not apply to small businesses.

Australian Securities and Investments Commission

Additional resources for ASIC to implement its new enforcement strategy and expand its capabilities and roles in accordance with the recommendations of the Royal Commission.

Australian Prudential Regulation Authority

Additional resourcing for APRA to strengthen its supervisory and enforcement activities to support its response to key areas of concern raised by the Royal Commission, particularly in relation to governance, culture and remuneration.

Complaints and compensation

Additional resourcing for the Australian Financial Complaints Authority (AFCA) to establish a scheme to consider eligible historical financial complaints dating back to 1 January 2008.

Designing and implementing an industry-funded compensation scheme of last resort for consumers and small business.

Paying compensation owed to consumers and small businesses from historical unpaid external dispute resolution determinations.

Additional funding to allow the Superannuation Complaints Tribunal (SCT) to resolve outstanding complaints by 31 December 2020, when the SCT will cease its operations.

The cost of this measure will be offset by a corresponding increase in APRA's Financial Institutions Supervisory Levies.

Superannuation Consumer Advocate

Resourcing to identify options to support the establishment of a Superannuation Consumer Advocate. The Advocate will provide input on behalf of consumers in policy discussions and provide information to educate and assist consumers with navigating the superannuation system.

Other Royal Commission recommendations

Establishing an independent financial regulator oversight authority, to assess and report on the effectiveness of ASIC and APRA in discharging their functions and meeting their statutory objectives.

Undertaking a capability review of APRA which will examine its effectiveness and efficiency in delivering its statutory mandate, as well as its capability to respond to the Royal Commission.

Establishing a Financial Services Reform Implementation Taskforce within the Treasury to implement the Government's response to the Royal Commission, and co-ordinate reform efforts with APRA, ASIC and other agencies through an implementation steering committee.

Additional resourcing for the large volume of legislative drafting that will be required to implement the Government's response to the Royal Commission.

TechConnect comment

It's pleasing to see the Government allocating funding for the significant resources which will be required to implement the Royal Commission's recommendations.

Super funds and financial planning businesses can expect to see increases in fees and levies to fund future regulatory and compensatory activities.

Australian Defence Force Superannuation Scheme

The Government will allow Australian Defence Force Superannuation Scheme (ADF Super) members to choose to remain contributory members when they discharge from the Australian Defence Force.

TechConnect comment

This will allow former Defence Force employees to remain members of this popular fund.

Release authorities via SuperStream

Funding will be provided to the ATO to develop capabilities to send release authorities to super funds via the electronic SuperStream system, from 31 March 2021.

TechConnect comment

A welcome initiative that the industry has been asking for.

SMSFs and SuperStream

The start date of SMSF rollovers in SuperStream will be delayed until 31 March 2021.

Protecting Your Super Package

In March 2019, the Protecting Your Super Package legislation passed with significant amendments to the original proposal.

The provisions of the legislation that passed included:

- administration and investment fees capped at 3% for balances below $6,000
- exit fees banned from 1 July 2019
- removal of insurance on any account that has been inactive for 16 consecutive months
- requirement that the ATO proactively pay amounts to a member’s active super account where the reunited balance is greater than $6,000.

The original proposals to ensure insurance is only offered on an opt-in basis for accounts with balances of less than $6,000 and new accounts belonging to members under the age of 25, did not pass into legislation.

The Government will delay the start date for these two measures until 1 October 2019.

TechConnect comment

It will be interesting to see how the Government proposes to enact this legislation given its recent lack of success.

Tax

Personal income tax cuts

In addition to the tax cuts already legislated to occur from 1 July 2022 and 1 July 2024, the Government proposes further changes to the personal income tax schedules:

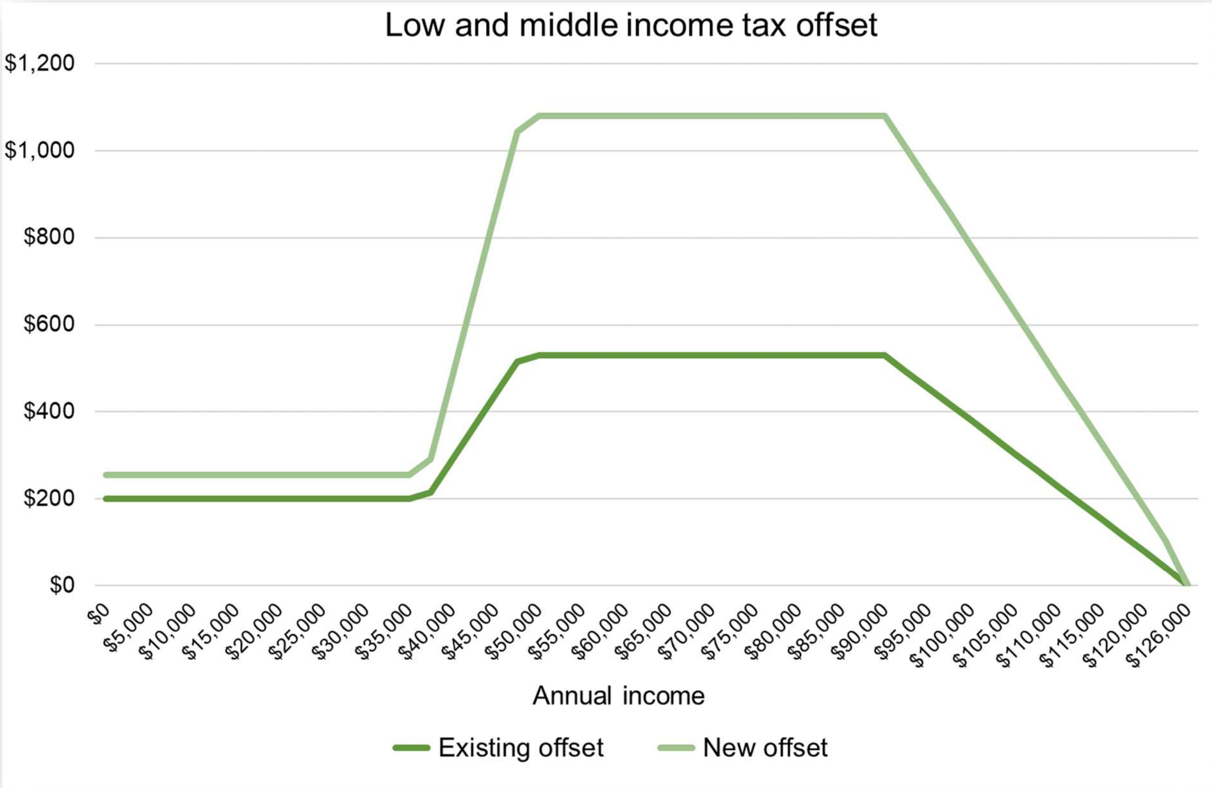
- From 1 July 2022, the top threshold of the 19% tax bracket will increase from $41,000 to $45,000 and the low income tax offset (LITO) will increase from $645 to $700.
- From 1 July 2024, the 32.5% tax rate will reduce to 30%.

Low and middle income tax offset

The low and middle income tax offset (LMITO) will increase for the 2018/19 to 2021/22 financial years. After this, LMITO is not available. LMITO was announced in last year's Federal Budget and is already legislated. The maximum LMITO will increase from $530 to $1,080. The tables and chart below outline the current position and proposed changes.

Taxable income (pa)	LMITO (current)
$37,000 or less	$200
$37,001 to $48,000	$200 + [(income - $37,000) x 0.03]
$48,001 to $90,000	$530
$90,001 to $125,332	$530 – [(income - $90,000) x 0.015]
$125,333 or more	Nil

Taxable income (pa)	LMITO (proposed)
$37,000 or less	$255
$37,001 to $48,000	$255 + [(income - $37,000) x 0.075]
$48,001 to $90,000	$1,080
$90,001 to $125,999	$1,080 – [(income - $90,000) x 0.03]
$126,000 or more	Nil



The tables below summarise the current and proposed tax schedules.

Current personal tax schedules

Tax rate	Current threshold	Threshold from 1 July 2022	Threshold from 1 July 2024
Nil	0 - $18,200	0 - $18,200	0 - $18,200
19%	$18,201 - $37,000	$18,201 - $41,000	$18,201 - $41,000
32.5%	$37,001 - $90,000	$41,001 - $120,000	$41,001 - $200,000
37%	$90,001 - $180,000	$120,001 - $180,000	-
45%	$180,000+	$180,000+	$200,000+
LMITO (maximum)	$530	-	-
LITO (maximum)	$445	$645	$645

Proposed personal tax schedules

Tax rate	Current threshold	Threshold from 1 July 2022	Threshold from 1 July 2024
Nil	0 - $18,200	0 - $18,200	0 - $18,200
19%	$18,201 - $37,000	$18,201 - $45,000	$18,201 - $45,000
32.5% (current and from 1 July 2022) 30% from 1 July 2024	$37,001 - $90,000	$45,001 - $120,000	$45,001 - $200,000
37%	$90,001 - $180,000	$120,001 - $180,000	-
45%	$180,000+	$180,000+	$200,000+
LMITO (max)	$1,080	-	-
LITO (max)	$445	$700	$700

The proposed changes to the tax thresholds, rates and tax offsets create the following future tax cuts.

Taxable income (pa)	Tax cut from 1 July 2018	Tax cut from 1 July 2022 (compared to 2017/18)	Tax cut from 1 July 2024 (compared to 2017/18)
$20,000	0	0	0
$40,000	$480	$580	$580
$60,000	$1,080	$1,080	$1,455
$80,000	$1,080	$1,080	$1,955
$100,000	$915	$1,665	$3,040
$110,000	$615	$2,115	$3,740
$120,000	$315	$2,565	$4,440
$140,000	$135	$2,565	$5,840
$160,000	$135	$2,565	$7,240
$200,000	$135	$2,565	$11,640

An online calculator is available to estimate the tax benefits for a specified level of income.

TechConnect comment

From 1 July 2018, the tax cuts are largest for low to middle income earners. However, the tax cuts from 1 July 2024 are largest for higher income earners.

It is expected that 94% of personal taxpayers will incur a marginal tax rate of 30% or less in the 2024/25 financial year.

You may wish to consider the financial planning opportunities for your clients presented by the tax cuts, for example, establishing a super or non-super savings plan or acquiring insurance.

Enhancements to the instant asset write-off

Small and medium businesses can immediately deduct eligible assets costing less than $30,000 first used or installed ready for use between 7:30pm (AEDT) on 2 April 2019 and 30 June 2020. Assets acquired between 29 January 2019 and before 7:30pm (AEDT) on 2 April 2019 are subject to a $25,000 threshold and limited to small businesses. The proposal provides a further 12-month extension of the current deduction which was set to expire on 30 June 2019. Access to the instant asset write-off is expanded to medium businesses by increasing the annual turnover threshold from $10 million to $50 million for eligible assets first used or installed ready for use between 7:30pm (AEDT) on 2 April 2019 and 30 June 2020.

Assets valued at $30,000 or more can continue to be placed in the small business simplified depreciation pool and depreciated at 15% in the first income year and 30% thereafter. The depreciation pool can also be immediately deducted if the balance is less than $30,000 over this period (including existing pools). Certain assets are not eligible, for example, horticultural plants and in-house software.

From 1 July 2020, the threshold for the immediate deduction of assets and the value of the pool revert to $1,000.

TechConnect comment

Small business clients may consider acquiring eligible assets in the 2018/19 or 2019/20 financial years to take advantage of the significant upfront deduction. The measure applies for new or second-hand assets.

The client should confirm the availability to the tax deduction with their accountant.

It's important to ensure the eligible asset costs less than $30,000. An asset valued at exactly $30,000 is placed in the depreciation pool and the upfront deduction is not available.

Medicare levy low income thresholds

Effective 1 July 2018, the Medicare levy low income thresholds will be increased to reflect movements in the consumer price index (CPI). The new thresholds are outlined in the table below:

	2017/18	2018/19
Single	$21,980	$22,398
Family	$37,089	$37,794
Single pensioner	$34,758	$35,418
Family pensioner	$48,385	$49,304
Additional amount per dependent child	$3,406	$3,471

Social security

Employment income reported through Single Touch Payroll

From 1 July 2020, fortnightly employment income for social security purposes will be reported to Government agencies, such as Centrelink, through Single Touch Payroll. This verification process will reduce the likelihood of an overpayment and the need for the individual to subsequently repay it.

TechConnect comment

The Government expects this measure will save $2.1 billion over five years. The anticipated saving suggests there may currently be issues with income support recipients under-reporting their employment income.

Energy Assistance Payment

A one-off Energy Assistance Payment of $75 for singles and $62.50 for each eligible member of a couple. To be eligible the individual must be in receipt of a qualifying payment on 2 April 2019 and be resident in Australia.

Qualifying payments are the Age Pension, Carer Payment, Disability Support Pension, Parenting Payment Single, the Veterans' Service Pension and the Veterans' Income Support supplement, Veterans' disability payments, War Widow(er)'s Pension, and permanent impairment payments under the *Military Rehabilitation and Compensation Act 2004* (including dependent partners) and the *Safety, Rehabilitation and Compensation Act 1988*.

Consistency between former spouses and de-facto partners for the partner service pension

Both former spouses and former de-facto partners of veterans will be able to continue to receive the partner service pension after their relationship with their veteran partner has ended, including situations where the relationship has ended because of family or domestic violence.

Aged care

Additional Home Care packages

As previously announced on 10 February 2019, the Government will provide funding for an additional 10,000 Home Care places over five years from 2018/19.

TechConnect comment

Whilst additional Home Care places have been announced, we are still short of meeting the needs of the more than 100,000 people waiting for Home Care.

For more information please contact us.