

Analysis 2 April 2019

Treasurer Josh Frydenberg's first Budget focuses on reducing the tax burden for the majority of working Australians, greater superannuation flexibility for retirees and a one-off energy relief payment for eligible income support recipients.

Summary

In 2018/19

- Low and middle income earners will benefit from tax savings as a result of an increase in the low and middle income tax offset.
- The instant asset write-off threshold will increase from \$20,000 to \$30,000 for small and medium sized businesses with aggregated turnover of less than \$50 million.
- A one-off payment will assist eligible social security and DVA recipients with the cost of energy bills.
- Aged Care funding will increase.

From 1 July 2019

- The Partner Service Pension will be available to former spouses of veterans.

From 1 July 2020

- People aged 65 and 66 will be able to make voluntary super contributions without having to meet the work test.
- The age limit for spouse contributions will increase to 74.
- More flexibility will be provided when calculating exempt current pension income.

Note: Legislation is required to pass to support these measures. As a Federal election is likely to be called shortly and there are limited sitting days of Parliament, it is reasonable to expect that some measures may not be legislated.

2019 Federal Budget Analysis 2 April 2019

Taxation

Personal tax rate changes Date of effect: From 1 July 2018

Low and middle income earners will benefit from an increase in the low and middle income tax offset (LMITO) in 2018/19, as well as tax rate and income threshold changes from 2024/25.

Personal income tax thresholds and offsets

Tax rate *	Proposed			Proposed Tax rates	
	Current 18/19	18/19 to 21/22	22/23 to 23/24	from 1/7/2024	Income Thresholds from 1/7/2024
0.0%	\$0-\$18200	\$0-18200	\$0-18200	0%	\$0-\$18,200
19.0%	\$18,200- \$37,000	\$18,201- \$37,000	\$18,201 - \$45,000	19%	\$18,201- \$45,000
32.5%	\$37,000-\$90,000	\$37,001- \$90,000	\$45,001- \$120,000	30%	\$45001 - \$200,000
37.0%	\$90,000-\$180,000	\$90,000- \$180,000	\$120,000 - \$180,000	NA	NA
45.0%	>\$180,000	>\$180,000	>\$180,000	45%	>\$200,000
Low & middle tax offset	Up to \$530	Up to \$1,080	Nil	Offset	Nil
Low income offset	Up to \$445	Up to \$445	Up to \$700	Offset	Up to \$700

**Excludes Medicare*

The changes to the LMITO will increase the base amount from \$200 to \$255 and the maximum up from \$530 to \$1,080. This will apply for the 2018/19 to 2021/22 financial years (as this is the legislated timeframe for this offset to end).

The table below summarises the tax offset:

Maximum Offset amount	Shade-out Income	Increase or decrease
\$ 255	\$0- \$37,000	NA- Entitled to maximum
\$ 1,080	\$37,000 - \$48,000	Increase of \$0.075 per \$1
\$ 1,080	\$48,000- \$90,000	NA- Entitled to maximum
\$ 1,080	\$90,000 - \$126,000	Reduction of \$0.03 per \$1

This offset is determined upon the lodgement of the individual's tax return and is not refundable.

The low income tax offset (LITO) will be amended from 1 July 2022 (as originally legislated). However, it will be aligned to the new income thresholds. From that date, LITO will increase from \$645 to \$700. The reduction rate will be:

- \$0.05 per \$1 for taxable incomes between \$37,500 and \$45,000, and
- \$0.015 per \$1 for taxable income between \$45,000 and \$66,667.

Personal tax savings

Table 3 below illustrates the tax payable in future financial years and the potential tax savings compared to 2018/19, for a range of taxable incomes. These figures take into account the proposed personal income threshold and tax offset changes.

Table 3	Current	Proposed 18/19 to 21/22		Proposed 22/23		Proposed 24/25 onwards	
taxable income	Tax payable in 18/19	Tax Payable	Tax Saved	Tax Payable	Tax Saved	Tax Payable	Tax Saved
\$ 40,000	\$ 4,657.00	\$ 4,467.00	\$ 190.00	\$ 4,367.00	\$ 290.00	\$ 367.00	\$ 290.00
\$ 80,000	\$ 18,617.00	\$18,067.00	\$ 550.00	\$18,067.00	\$ 550.00	\$ 17,192.00	\$ 1,425.00
\$ 120,000	\$ 34,217.00	\$34,117.00	\$ 100.00	\$31,867.00	\$ 2,350.00	\$ 29,992.00	\$ 4,225.00
\$ 160,000	\$ 48,897.00	\$49,897.00	\$ -	\$47,467.00	\$ 2,430.00	\$ 42,792.00	\$ 7,105.00
\$ 200,000	\$ 67,097.00	\$67,097.00	\$ -	\$64,667.00	\$ 2,430.00	\$ 55,592.00	\$11,505.00

**Tax savings is based on comparison with current tax payable in 2018/19. Figures based on Government Tax relief estimator calculator.*

Small business instant asset write-off

Date of effect: From 2 April 2019

The Government will increase the threshold for the immediate asset write-off from \$20,000 to \$30,000. This is an extension from the already announced measure to increase to \$25,000 from 29 January 2019 to 30 June 2020.

The measure will also extend from small businesses with aggregated turnover of less than \$10 million to medium sized businesses with aggregated turnover of less than \$50 million.

The higher write-off threshold will apply from 7.30pm on the Budget night until 30 June 2020.

Superannuation

Superannuation contributions for older Australians

Date of effect: 1 July 2020

The work test will no longer need to be met to make voluntary contributions to superannuation from 1 July 2020 for those aged 65 and 66. The ability to utilise the bring-forward rule will also be amended to allow individuals less than age 67 to contribute a greater amount to superannuation. This means the work test requirements will align with Age Pension age which will be 67 from 1 July 2023.

There is no change to other criteria, such as the total superannuation balance, which will limit the ability to make non-concessional contributions.

The removal of the work test would provide the opportunity for those eligible clients to:

- make non-concessional contributions
- make concessional contributions including catch-up contributions
- implement the re-contribution strategy
- manage tax, including capital gains tax

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- claim the spouse contribution tax offset or co-contributions (if eligible), and
- Transfer foreign superannuation into an Australian superannuation account.

Spouse contributions up to age 74

Date of effect: 1 July 2020

The age limit for spouse contributions will increase to 74. Currently spouse contribution can only be made if the receiving spouse is under age 70. Additional flexibility will be provided by the removal of the work test for those aged 65 and 66. This would enable spouse contributions to be made for the receiving spouse without the need to satisfy the work test up to age 66. From age 67 to 74, the work test would need to be satisfied by the receiving spouse.

Making spouse contributions is a simple strategy that enables that spouse's superannuation to be boosted. This may be used as a means of equalising the superannuation interests of both members of the couple. It may also entitle the contributing spouse access to the spouse contribution tax offset.

There is no change to other criteria, such as the total superannuation balance, which will limit the ability to make non-concessional contributions.

Insurance in superannuation

Date of effect: 1 October 2019

Part of the Government's Protecting Super Package included the provision of insurance in superannuation on an opt-in basis for accounts with balances of less than \$6,000 and for members under age 25. The original start date for this was 1 July 2019, however it has been deferred until 1 October 2019.

Calculation of exempt current pension income

Date of effect: 1 July 2020

Trustees of superannuation funds will be able to choose the method they use to calculate exempt current pension income (ECPI) for funds with members in both pension and accumulation phases.

The requirement for superannuation funds to obtain an actuarial certificate to calculate ECPI under the proportionate method when all the members are in retirement phase will be removed.

This measure would be primarily of interest to SMSF trustees.

Social Security

One-off energy payment

Date of effect: From June 2019

A one-off payment of \$75 for singles and \$62.50 for each eligible member of a couple will be made to assist with the cost of energy bills. To be eligible, an individual must be a resident in Australia and be eligible for a qualifying payment on 2 April 2019. Qualifying payments are:

- Age Pension
- Disability Support Pension
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- Carer Payment
- Parenting Payment (Single)
- Veterans' Service Pension
- Veterans' Income Support Supplement
- Veterans' Disability Payments
- War Widow(er)s Pension, and
- Certain permanent impairment payments.

The payment will be tax free and not counted as income for social security purposes.

Note: This was originally announced in a media release on 31 March 2019.

Partner Service Pension – eligibility alignment

Date of effect: 1 July 2019

Former spouses and former de-facto partners of veterans will be able to access the Partner Service Pension when they separate from their veteran partner.

Aged Care

Better access to care

Date of effect: 1 July 2018

More funding will be available to improve the quality, safety and accessibility of residential and home care services, including:

- The release of an additional 10,000 home care packages across the four package levels, and
- Developing an end-to-end compliance framework for the Home Care program, including increasing auditing and monitoring of home care providers.

Note: These measures were originally announced in a media release on 10 February 2019.