2019 Budget Summary

Treasurer Josh Frydenberg handed down his first budget as Treasurer, and given an election is expected to be called shortly, with it expected to occur in May, the budget was full of election sweeteners. The main focus of the budget was on the income tax cuts, some of which have been brought forward, and on infrastructure spending.

From a Super and Tax perspective, the key take outs of the 2019 Budget were as follows:

- Immediate tax cuts for low-to-middle income earners and lowering of the 32.5% tax rate to 30% from 1 July 2024.
- A One-Off Energy Assistance Payment for Social Security recipients to be received by the end of the current financial year. The payment will be $75 for singles and $125 for couples combined and will be exempt from income tax.
- The ability for people aged 65 and 66 to contribute to Super without meeting the work test requirements from 1 July 2020, to align with the increase in the Age Pension age.
- An increase to the age limit for spouse contributions from 69 to 74, from 1 July 2020
- An increase in funding to Health and Aged Care services

We note that all measures outlined below are proposals only at this stage, each of the proposals must still pass parliament before they're legislated. On top of this, given it is an election year, if there is a change of government these policies may change yet again. The Labor government will be providing their Budget reply this Thursday, which will provide an insight into which policies outlined below they will keep, alter or not implement.

Superannuation Changes

Changes to the Work Test & Non-Concessional Contributions – Effective 1 July 2020

The government will make changes to the superannuation contribution rules to allow people aged 65 and 66 to make non-concessional contributions (after-tax contributions) to Superannuation without meeting the work test (that is working for 40 hours in a period of 30 consecutive days). This is to align the work test with the qualifying age for Age Pension (scheduled to reach 67 from 1st of July 2023).

As part of this measure, people under the age of 67 will also be able to utilise the "bring-forward" rule and make contributions up to the current limit of $300,000 in the one financial year.

Under current legislation, anyone between the ages of 65-74 would need to satisfy the work test to make non-concessional contributions to Super, and if allowed, can only contribute up to the limit of $100,000 and unable to utilise the "bring-forward" rule.

We note from 1 July 2019 (FY20) you will still need to meet the work test to make non-concessional contributions as the changes are expected to take effect from the 1st of July 2020 (FY21). These rules will also still apply in conjunction with the limits to contributions in relation to the $1.6 million super balance cap.

JBS View: We see this as a welcomed change as this will provide greater flexibility and choices for those transitioning to retirement, providing greater ability to build wealth for retirement.

Spouse Contributions Extended to age 74 – Effective 1 July 2020

Under current rules, to be eligible to make a spouse contribution, the receiving spouse must be under age 70 at the time of the contribution and meet the work-test if they're between 65 to 69. Under the proposed rules, spouse contributions can be made where the receiving spouse is under age 75. In line with the changes to noted above, where the receiving spouse is age 65 or 66, they no longer need to meet a work test.

JBS View: We welcome this change as it extends the time-frame for making these contributions and extends the opportunity to equalise super balance between spouses, this provides more flexibility around strategies to help mitigate any impacts of the $1.6 million super balance cap.

Exempt Current Pension Income (ECPI) Calculation – Effective 1 July 2020

The Government has proposed changes to the Tax Act 1997 to allow the trustees of super funds, such as Self-Managed Super Funds (SMSF), with interests in both the accumulation and pension phases in a year to choose their preferred method of calculating ECPI.

Under current rules, a fund will be deemed to be utilising the segregated assets method during any period where 100% of the fund's interest are in the pension phase. This may lead to extra costs and complexity where a member makes a contribution throughout the year, which could lead to the fund needing to use both the segregated and unsegregated method.

The Government also announced it will remove the requirement for super funds to obtain an actuarial certificate when calculating ECPI using the proportionate method where all members of the fund are fully in the pension phase for all of the income year. Effectively, any SMSFs which are precluded from utilising the segregated assets method will no longer need to obtain an actuarial certificate.

JBS View: We are happy with this change, as the announcement allows trustees of an SMSF, with benefits in both accumulation and pension, to choose their preferred method of calculating ECPI and brings it in line with prior industry practice.

Protecting Your Super Package – Effective 1 October 2019

The Government has introduced a Bill to give effect to controversial elements of the Protecting your Super measures, which were edited 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.

JBS View: This package was originally designed to reduce the erosion of super funds with small balances. We've always held the view that super funds should increase their education around the value of insurance.

Aged Care Changes

<u>Increased Funding for Aged Care</u> – Effective 1 July 2018

The Government will provide $724.8 million over 5 years from FY19 to fund improvements in residential and Home Care services, including:

- A one-off increase to the basic subsidy for residential Aged Care recipients from FY19 and 13,500 additional residential Aged Care places,
- 10,000 additional Home Care packages from FY19, with these to be provided across the 4 package levels,
- An increase to the Dementia and Veteran's Home Care supplements, and
- Funding to strengthen Aged Care regulation.

<u>Extension of Commonwealth Home Support Programme</u> – 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 this to 30 June 2022.

The CHSP contributes to essential home support services, such as meals, personal care, nursing, domestic assistance, etc.

<u>Simplification of Aged Care Forms</u> – Effective May 2019

The Government aims to simplify the means testing forms that need to be completed when entering Aged Care. 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 Aged Pension.

For new residents with straight forward financial affairs, they will complete a short form, and those will complex affairs will complete a much shorter form than previous.

JBS View: JBS understands the impact Aged Care has on client's financial situations and the administrative burden at the beginning. We welcome all the above changes to help with the ease of transition to Aged Care, and the affordability and availability of Aged Care services.

Taxation Changes

Personal Income Tax Cuts

The Government has announced it will extend the personal income tax cuts that were announced in last year's Federal Budget. 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). Taxpayers with income between $48,000 and $90,000 will be eligible to receive the maximum offset of $1,080. The offset phases out with incomes up to $126,000. The new amounts will apply for the 2018-19 financial year which means, provided the Government can legislate these changes in the three Parliamentary sitting days in April, the offset will apply to tax returns lodged from 1 July 2019.

- From 1 July 2022: the upper threshold for the 19% tax bracket will increase from $41,000 to $45,000, and 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. These changes will replace the LMITO ending on 30 June 2022.

- 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 Rate changes are as follows:

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 Medicare Levy for Low-Income Thresholds

The Government will increase the Medicare levy low-income thresholds for singles, families, and seniors and pensioners from the 2018-19 income year. New thresholds will account for recent movements in the CPI.

- The threshold for singles will be increased from $21,980 to $22,398.
- The family threshold will be increased from $37,089 to $37,794.
- For single seniors and pensioners, the threshold will be increased from $34,758 to $35,418.

- The family threshold for seniors and pensioners will be increased from $48,385 to $49,304.
- For each dependent child or student, the family income thresholds increase by a further $3,471, instead of the previous amount of $3,406.

JBS View: While tax cuts are welcome as it keeps more money in our client's hands, the majority of tax cuts aren't scheduled to take effect until the 2022/23 Financial Year. While it is comforting that the Government is sticking with their original plan from the previous Budget, we have another 3 budgets before they come into effect for the Australian Government, whatever party that may be at the time, to change the rules to whatever is desired/needed during that budget. In other words, we shouldn't count our chickens until they hatch.

For those earning below $126,000 this financial year, assuming the changes get through, there is a little bit of tax relief with those earning between $48,000 and $90,000 receiving the full $1,080, due to the increase in the LMITO. For low income earners the increase in the threshold for being liable to pay the Medicare Levy will provide a small amount of relief and for those earning above $126,000 unfortunately no tax relief yet.

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 is 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. This is important as this legislation (if passed) does not backdate to the start of the financial year but is from budget night. If the asset was purchased before budget night then the asset value threshold is still $25,000, not the higher $30,000.

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.

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

JBS View: With any deduction it is important to remember that it's a deduction, not free money. While businesses can now get an immediate deduction for an asset with a purchase price up to $30,000, business owners should not go out and spend the money unless the asset is required. The asset should be the focus with the extra benefit being the tax deduction. Don't go purchasing assets just to get the tax deduction.