
# Tax relief for middle-income earners, aged care package and no major super changes

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On May 8, the Turnbull Government delivered its third Federal Budget.

There are a number of proposed announcements that you should be aware of as they may impact your future cashflow and social security entitlements.

This Technical Bulletin focuses on the key superannuation, social security and taxation measures. It features useful case studies and tables. The proposals outlined need to pass through Parliament before becoming law (unless otherwise stated) and may change through the process.

## Key Budget measures

- Tax relief for low to middle income earners
- Work test exemption for some retirees
- Opt-in for life insurance in superannuation for some workers
- Super trustees required to consider members' income needs
- Greater flexibility for Self-managed Super Funds (**SMSFs**)
- Greater flexibility for high income earners with multiple employees
- Superannuation fee restrictions
- Pension Work Bonus increased
- Pension Loan Scheme eligibility extended
- New Age Pension means testing rules for pooled lifetime income streams
- Assistance for mature aged workers
- Increased aged care support

# Superannuation

## Work test delayed for one year

**Effective 1 July, 2019**

Currently, voluntary super contributions cannot be made from age 65 unless a work test is met.

Under this measure, eligible retirees aged 65 to 74 with a total super balance less than $300,000 will be able to make voluntary super contributions for an additional 12 months from the end of the financial year when they last met the work test.

**CASE STUDY**

Jillian is 67 years old and plans to fully retire on 1 December 2019. Jillian's total super balance is $200,000. Under the current rules, the last opportunity Jillian has to make voluntary super contributions is 30 June 2020, however, under this proposal she would be exempt from the work test for a further 12 months allowing her to contribute up to 30 June 2021.

Not only can Jillian make a $100,000 non-concessional contribution in the 2020/21 year, she is also able to make a tax deductible (concessional) contribution to assist with a capital gains tax liability that arose due to the sale of an investment property.

**Comment:** This is a positive announcement for retirees because it affords them more time to implement their retirement plans after finishing work. This is important given an increasing number of people are 65 years old or over when they decide to retire.

## Opt-in for life insurance inside superannuation for some

Some super fund members will be offered life insurance inside super on an 'out-in' basis as opposed to the current automatic acceptance model.

Those impacted by this change include:

- New members under the age of 25;
- Existing members with an account balance under $6,000; and
- Existing members who have not contributed to the fund in 13 months and are considered inactive.

These changes aim to provide greater flexibility and cost efficiency for members, particularly young workers, by enabling them to stop paying for cover they don't need or want and can't claim on. It also aims to prevent the erosion of small super balances due to fees and charges.

These changes do not stop members from holding insurance inside superannuation, they simply require affected members to consciously opt-in for cover.

## Retirement income covenant

There's currently no obligation on super fund trustees to consider the retirement income needs of their members. The Government is proposing to introduce a retirement income covenant under the Superannuation Industry (Supervision) Act 1993 to require super trustees to develop a strategy to help members achieve their retirement income objectives.

Trustees will be required to offer Comprehensive Income Products for Retirement (**CIPR**) in a bid to create a retirement income stream for life.

## Greater flexibility for SMSFs

**Effective 1 July, 2019**

The maximum number of members permissible in an SMSF and small Australia Prudential Regulation Authority (**APRA**) fund will increase from four to six.

Additionally, SMSFs that can demonstrate good record keeping and compliance, evidenced by three consecutive clear audit reports, will have the benefit of submitting audit reports every three years instead of annually.

**Comment:** For the vast majority of SMSFs which only have two members, the ability to have up to six members may be irrelevant, however, those with large families or business partnerships will welcome this additional flexibility.

## Concessional contributions for high income earners

**Effective 1 July, 2018**

All employers are currently required to contribute a minimum of 9.5% of earnings to super on behalf of employees up to a maximum earnings base of $52,760 per quarter.

However, where a person has two or more employers all contributing the minimum super guarantee (**SG**) rate, the $25,000 concessional cap may be unintentionally breached.

Under this proposal, the Government will allow individuals whose income exceeds $263,157 ($25,000 = 9.5% x $263,157) and have multiple employers to nominate that their wages from certain employers are not subject to SG.

This enables high income earners to manage their superannuation taxation liabilities and potentially negotiate additional income from their employer.

## Restrictions on superannuation fees

**Effective 1 July, 2019**

Exit fees on all superannuation accounts will be banned. Additionally, a 3% maximum fee cap will apply to accounts with balances below $6,000.

The ATO will also receive additional funding to expand its data matching capabilities to help workers consolidate small, inactive accounts with existing active accounts.

# Social security and aged care

## Pension Work Bonus increase

**Effective 1 July, 2019**

The Pension Work Bonus is a Scheme available to Age Pensioners to encourage them to remain in the workforce past pension age.

Two changes regarding the Pension Work Bonus have been proposed.

Firstly, the amount of employment income that is exempt from pension calculations will increase from $250 per fortnight to $300 per fortnight (or $7,800 per year each).

Secondly, self-employed workers will be eligible for the work bonus, a benefit that has previously only been available to employees.

To ensure the Work Bonus is only available to those gainfully employed, there will be a 'personal exertion' test. The Work Bonus will not apply to income from returns on financial or real estate investments.

**CASE STUDY**

Derek and Christine, both aged 66, work part-time as music teachers earning $25,000 each per annum. They also receive a part Age Pension of $278 each per fortnight.

As Derek and Christine are self-employed, they are not able to apply the Work Bonus to their situation. However, from 1 July 2019, Derek and Christine will have the opportunity to reduce their Centrelink income by $7,800 each per annum under the new rules, resulting in their Age Pension increasing to $428 each per fortnight. That represents a combined increase in Age Pension of $7,800 per year.

**Comment:** An increase in Work Bonus of only $50 per fortnight may not be a big incentive to delay retirement plans and work longer but it may provide a meaningful boost to income for those looking to work beyond pension age.

## Pension loans scheme extended

**Effective 1 July, 2019**

The Government proposes to expand eligibility of the Pension Loans Scheme (**PLS**) to all Australians of Age Pension age and will also increase the maximum allowable combined Age Pension and PLS income stream to 150% of the Age Pension rate.

Currently, the combined income received from the Age Pension and the PLS is capped at the maximum Age Pension rate. This has resulted in clients already receiving the full rate of pension being ineligible for a PLS even though, in many cases, these clients are the most in need.

As participants of the PLS are using the equity in their home to fund the additional income, the Government has advised that existing age-based loan to value ratio limits will continue to apply to ensure PLS recipients will not owe the Government more than what their home is worth. The current PLS interest rate of 5.25% per annum will apply to existing and new loans.

Income payments under the PLS are non-taxable and not means tested.

**Comment:** The Pension Loans Scheme has not been popular in the past due to the limitations placed on the amount of income that could be received. This measure will provide increased flexibility allowing pension age clients to start and stop the payments if their circumstances change, however, it still does not provide a lump sum payment in which case other ‘access to home equity’ options available in the market may be more appropriate.

## Development of lifetime income streams

**Effective 1 July, 2019**

New Age Pension means testing rules are set to apply for pooled lifetime income streams, that is, income stream products with specific features designed to provide income payments for life, thereby reducing longevity risk in retirement.

For means testing purposes, the measure provides:

- A fixed 60% of all pooled lifetime product payments as income; and
- 60% of the purchase price of the product as an asset until age 84 (or a minimum of five years), and then 30% for the rest of the client’s life.

Providing certainty around the Centrelink treatment of pooled lifetime income streams is expected to result in greater confidence and stability for the industry to develop innovative products.

Pooled lifetime income streams purchased before 1 July 2019 will be grandfathered.

## Enhanced home care packages and care website

A range of measures to support the aged care sector will be rolled out including greater support for those seeking assistance while living at home with additional high level home care packages plus additional residential aged care places.

Government funding of $61.7 million over two years has also been allocated to improve the My Aged Care website. This money is earmarked to ensure the site is easier to use and more intuitive so people can access aged care services.

## Other social security measures

- Family Tax Benefit (**FTB**) changes including a freeze on FTB rates for a further two years and a 30 cents in the dollar income test taper rate for FTB A families who exceed the higher income free threshold. The proposed increase in FTB A rates as part of the 2015/16 Family Payment Reform package will not proceed.
- A one-off Energy Assistance Payment of $75 for singles and $125 for couples will be available to most pension recipients.

# Taxation

## Medicare levy

Plans to increase the Medicare levy by an additional 0.5% to 2.5% on 1 July 2019 to fund the National Disability Insurance Scheme (**NDIS**) have been scrapped.

The current Medicare levy is 2%. The levy does not apply to single taxpayers earning under $21,980; families earning under $37,089; or pensioners earning less than $34,758.

## Low and middle income tax offset (new)

**Effective 1 July, 2018**

Low and middle income earners will receive tax relief of up to $530 for the next four years which is in addition to the low income tax offset.

This offset increases incrementally for those earning between $37,000 and $48,000 before the maximum offset of $530 is applied to those earnings between $48,000 and $90,000. The benefit then gradually decreases to zero at a taxable income of about $125,000.

The Low and Middle Income Tax Offset will cease on 30 June 2022.

**Table 1: Resident tax rates for 2017/18 (excluding the Medicare levy of 2%)**

| Taxable income for 2017-2018 | Tax on income |
|---|---|
| 0 to $18,200 | Nil |
| $18,201 to $37,000 | $0.19 for each $1 over $18,200 |
| $37,001 to $87,000 | $3,572 plus $0.325 for each $1 over $37,000 |
| $87,001 to $180,000 | $19,822 plus $0.37 for each $1 over $87,000 |
| $180,001 and over | $54,232 plus $0.45 for each $1 over $180,000 |

**Table 2: Resident tax rates for 2018/19 (excluding the Medicare levy of 2%)**

| Taxable income for 2018-2019 | Tax on income |
|---|---|
| 0 to $18,200 | Nil |
| $18,201 to $37,000 | $0.19 for each $1 over $18,200 |
| $37,001 to $90,000 | $3,572 plus $0.325 for each $1 over $37,000 |
| $90,001 to $180,000 | $20,797 plus $0.37 for each $1 over $90,000 |
| $180,001 and over | $54,097 plus $0.45 for each $1 over $180,000 |

- From 1 July 2018, the low income tax offset remains at $445 and the low to middle income tax offset is introduced
- The 32.5% tax threshold is increased from $87,000 to $90,000
- It is proposed that tax rates and offsets will then remain constant until 2022/23

**Table 3: Resident tax rates for 2022/23 and 2023/24 (excluding the Medicare levy of 2%)**

| Taxable income for 2022-2023 | Tax on income |
|---|---|
| 0 to $18,200 | Nil |
| $18,201 to $41,000 | $0.19 for each $1 over $18,200 |
| $41,001 to $120,000 | $4,332 plus $0.325 for each $1 over $41,000 |
| $120,001 to $180,000 | $30,007 plus $0.37 for each $1 over $120,000 |
| $180,001 and over | $52,207 plus $0.45 for each $1 over $180,000 |

- From 1 July 2022, the low income tax offset increases from $445 to $645, and the low to middle income tax offset is removed
- The 19% tax threshold is increased from $37,000 to $41,000
- The 32.5% tax threshold is increased from $90,000 to $120,000
- From 1 July 2024, the 37% tax bracket will be abolished and the 32.5% threshold is increased to $200,000

**Table 4: Resident tax rates for 2024/25 onwards (excluding the Medicare levy of 2%)**

| Taxable income for 2024-2025 | Tax on income |
|---|---|
| 0 to $18,200 | Nil |
| $18,201 to $41,000 | $0.19 for each $1 over $18,200 |
| $41,001 to $200,000 | $4,332 plus $0.325 for each $1 over $41,000 |
| $200,001 and over | $56,007 plus $0.45 for each $1 over $200,000 |

## Company tax rates

Despite speculation that company tax cuts would accelerate under the 10-year Enterprise Tax Plan, its implementation remains unchanged.

| Income year | Turnover threshold | Company tax rate under the threshold | Standard company tax rate |
|---|---|---|---|
| 2017-2018 | $25 million | 27.5% | 30% |
| 2018-2018 to 2023-2024 | $50 million | 27.5% | 30% |
| 2024-2025 | $50 million | 27% | 30% |
| 2025-2026 | $50 million | 26% | 30% |
| 2026-2027 | $50 million | 25% | 30% |

## Negative gearing and franking credits

There are no changes to negative gearing and franking credits. Both are still permitted and taxpayers are still entitled to normal tax deductions and credits, as set out by the ATO.

## Vacant land owners

**Effective 1 July, 2019**

People who own vacant blocks of land will no longer be able to claim a tax deduction against them. The restriction won't apply to expenses incurred after construction commences on a vacant block or any land being used by owners to carry out business such as farming crops.

## Small business instant asset write-off

The instant asset write-off for businesses with revenue up to $10 million for purchases of up to $20,000 has been extended again to 1 July 2019.



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