Challenger
Federal Budget Report 2018-19

May 2018

On Tuesday 8 May 2018, the Treasurer, Scott Morrison, released the Government's 2018-19 Budget.

The Budget this year has an emphasis on retirement and there are a number of changes that will require your consideration in the preparation of advice for both your pre and post retiree clients. These include an increased focus on the retirement income legislative landscape, Pension Work Bonus and Pension Loan Scheme, superannuation work test and personal income tax thresholds.

It is important to note that before any of these announcements can be implemented they will require the passage of legislation and they may be subject to change.

Retirement income framework

The Government has announced it is developing a retirement income framework to increase flexibility and choice for retirees and help boost living standards.

Retirement income covenant requiring superannuation fund trustees to offer Comprehensive Income Products for Retirement

The Government will introduce a retirement income covenant in the superannuation law, requiring trustees to develop a strategy that would help members achieve their retirement income objectives. This will focus the industry on providing a higher standard of living for retirees.

The covenant will require trustees to offer Comprehensive Income Products for Retirement (CIPRs): products that provide individuals income for life, no matter how long they live. Offering a CIPR would be a core part of how trustees implement the retirement income strategy developed for their members.

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The Government is releasing a position paper for consultation shortly, outlining its proposed approach to the covenant. Once the covenant is legislated and the regulations finalised, the Government will ensure the industry has sufficient time to adjust before the legislation commences.

Means test rules for lifetime income streams

The Government has announced new means test rules for lifetime retirement income stream products. These rules provide clarity and certainty about the future treatment of lifetime products and create a foundation for the development of new retirement income stream products.

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The rules announced are proposed to come into effect on 1 July 2019 and the existing rules will remain in place until then.

The announcement confirms grandfathering under the current rules for all clients who purchase lifetime retirement income streams before 1 July 2019. This means retirees who have already purchased lifetime annuities, or purchase them between now and 1 July 2019, will continue to be subject to the current rules.

The proposed rules

Assets Test
60 per cent of the purchase price of a lifetime income stream is assessed as an asset until age 84, or a minimum of five years, and thereafter 30 per cent is assessed as an asset for the rest of a person's life.

Income Test
A fixed 60 per cent of all lifetime income stream payments will be assessed as income.

No change is proposed to the means testing of term and account-based income streams.

New disclosure requirements

The Government will also formulate a new approach to retirement income product disclosure rules that will require providers to report simplified, standardised information on retirement income products. The Government will consult on new disclosure requirements prior to implementation.

Social security

Pension Work Bonus

From 1 July 2019, the Pension Work Bonus will increase from $250 to $300 per fortnight with the maximum unused amount that can be accrued increasing to $7,800 (up from $6,500).

In addition, the Government will extend the Pension Work Bonus to those who are self-employed. However, a 'personal exertion' test will be introduced to ensure the Pension Work Bonus is only available to those who are engaged in gainful work and not to those receiving passive income such as income from real estate.

Expanding the Pension Loan Scheme

From 1 July 2019, the Government will expand eligibility to the Pension Loan Scheme to include all Australians of Age Pension age. The Government will also increase the loan amount so that an individual can receive a fortnightly amount up to 150 per cent of the maximum Age Pension rate.

All Australians of Age Pension age will be eligible for the Pension Loan Scheme.

Currently part-pensioners and some self-funded retirees who own a property in Australia can access the non-taxable Pension Loan Scheme. It is available to those who are not entitled to the maximum rate of pension, or any pension, because of the Income Test or Assets Test (but not if they are ineligible under both tests).

Under the scheme, individuals who are Age Pension age can obtain a loan (secured against the individual's property) to increase their fortnightly pension payment from a part-rate or nil rate, up to the maximum pension rate.

Other existing rules including age-based loan to value ratio limits, ability to repay the loan at any time or on the sale of the property and fortnightly compounding of interest at a rate of 5.25 per cent will continue to apply.

Introduce an Income Test for Carer Allowance

From 20 September 2018 the Government will introduce a $250,000 annual Income Test threshold for the Carer Allowance and Carer Allowance (child) Health Care Card.

Currently, individuals who are providing care and attention to someone who has a disability or is frail with age can be eligible for:

- a non-means tested Carer Allowance of $127.10 per fortnight and a Health Care Card if care is provided to someone who is aged 16 or older or a child under age 16 with higher needs.
- a Health Care Card only if care is provided to a child under age 16 with lower needs.

A bill was introduced into parliament on 28 March 2018.

Taxation

Personal Income Tax Plan

The Government will introduce a seven year Personal Income Tax Plan. This includes:

Personal income tax bracket thresholds

Over a seven year period commencing in 2018-19 the top threshold for the personal income tax brackets will increase as illustrated in the table below. After seven years the personal income tax brackets will be simplified to four brackets so the majority of taxpayers will be on a marginal tax rate of 32.5 per cent or less.

Rate	2017-18	2018-19, 2019-20, 2020-21, 2021-22	2022-23, 2023-24	2024-25
Nil	Nil - $18,200	Nil - $18,200	Nil - $18,200	Nil - $18,200
19 per cent	$18,201 - $37,000	$18,201 - $37,000	$18,201 - **$41,000**	$18,201 - **$41,000**
32.5 per cent	$37,001 - $87,000	$37,001 - **$90,000**	**$41,001** - **$120,000**	**$41,001** - **$200,000**
37 per cent	$87,001 - $180,000	**$90,001** - $180,000	**$120,001** - $180,000	N/a – bracket removed
45 per cent	$180,000+	$180,000+	$180,000+	**$200,000+**

Low and Middle Income Tax Offset

A new non-refundable Low and Middle Income Tax Offset (LMITO) will be introduced. The LMITO will be a temporary measure applying from 2018-19 and phasing out in the 2021-22 financial year. As illustrated in the following table the maximum annual offset will be $530 and will cut out for those with a taxable income above $125,333 per annum.

New tax offset for low and middle income earners introduced from 1 July 2018.

Taxable income	2017-18	2018-19, 2019-20, 2020-21, 2021-22	2022-23, 2023-24	2024-25
Nil to $37,000	N/a	Up to $200	N/a	N/a
$37,001 - $47,999	N/a	$200 + [(taxable income - $37,000) x 3 cents]	N/a	N/a
$48,000 - $90,000	N/a	$530	N/a	N/a
$90,001 - $125,333	N/a	$530 – [(taxable income - $90,000) x 1.5 cents]	N/a	N/a

Low Income Tax Offset

From 1 July 2022 the annual Low Income Tax Offset (LITO) will increase to $645 and will cut out for those with a taxable income above $66,667 per annum.

Taxable income	2017-18	2018-19, 2019-20, 2020-21, 2021-22	2022-23, 2023-24	2024-25
Nil to $37,000	Up to $445	Up to $445	Up to $645	Up to $645
$37,001 - $41,000	$445 – [(taxable income - $37,000) x 1.5 cents]	$445 – [(taxable income - $37,000) x 1.5 cents]	$645 – [(taxable income - $37,000) x 6.5 cents]	$645 – [(taxable income - $37,000) x 6.5 cents]
$41,001 - $66,667	$445 – [(taxable income - $37,000) x 1.5 cents]	$445 – [(taxable income - $37,000) x 1.5 cents]	$385 – [(taxable income - $41,000) x 1.5 cents]	$385 – [(taxable income - $41,000) x 1.5 cents]
$66,667+	Nil	Nil	Nil	Nil

Two per cent Medicare Levy retained

The Government will retain the Medicare Levy rate at 2.0 per cent and will not proceed with the proposed increase to 2.5 per cent of taxable income from 1 July 2019.

Consequential changes to other tax rates that are linked to the top personal tax rate, such as the fringe benefits tax rate, will also not proceed.

Increase to Medicare Levy low-income thresholds

The 2017-18 financial year Medicare Levy low-income thresholds will be indexed for individuals and families. The threshold for singles will increase to $21,980 per annum and, for families with no children, increase to $37,089 per annum.

For those individuals and couples who are eligible for seniors and pensioners tax offset (SAPTO) the thresholds will increase to $34,758 per annum and $48,385 per annum respectively. The additional threshold amount for each dependent child or student will increase to $3,406 per annum.

	2017-18	2016-17
Single	$21,980	$21,655
Single eligible for SAPTO	$34,758	$34,244
Family	$37,089	$36,541
Couple eligible for SAPTO	$48,385	$47,670
Additional threshold for each dependent child	$3,406	$3,356

Extending the $20,000 instant asset write-off

For a further 12 months until 30 June 2019, small businesses with aggregated annual turnover of less than $10 million may continue to immediately deduct purchases of eligible assets costing less than $20,000 first used or installed ready for use by 30 June 2019. Some assets are ineligible e.g. horticultural plants and in-house software.

Small business instant asset write-off extended until 30 June 2019.

Assets valued at $20,000 or more (which cannot be immediately deducted) can continue to be placed into the small business simplified depreciation pool (the pool) and depreciated at 15 per cent in the first income year and 30 per cent each income year thereafter. The pool can also be immediately deducted if the balance is less than $20,000 over this period (including existing pools).

The current 'lock out' laws for the simplified depreciation rules (these prevent small businesses from re-entering the simplified depreciation regime for five years if they opt out) will continue to be suspended until 30 June 2019.

Taxation of testamentary trusts

The Budget introduces integrity measures for minors receiving income from testamentary trusts.

From 1 July 2019, the concessional tax rates available for minors receiving income from testamentary trusts will be limited to income derived from assets that are transferred from the deceased estate or the proceeds of the disposal or investment of those assets.

Income received by minors from testamentary trusts is currently taxed at normal adult tax rates rather than the higher tax rates that normally apply to minors. However, some taxpayers have benefited from the lower tax rates from assets unrelated to the deceased estate that have been injected into the trust.

This measure will clarify that adult marginal tax rates will only apply to minors in respect of testamentary trust income generated from assets of the deceased estate (or the proceeds of the disposal or investment of those assets).

Superannuation

Work test exemption

From 1 July 2019 the Government will introduce an exemption from the work test for voluntary contributions to superannuation. This is available for the following retirees:

- aged 65-74,
- with superannuation balances below $300,000, and
- in the first financial year that they do not meet the work test.

The exemption will be available for 12 months from the end of the financial year in which they last met the work test.

The work test currently requires individuals who are 65-74 to have worked at least 40 hours within 30 consecutive days in a financial year before they can make a personal contribution to superannuation.

Existing annual concessional and non-concessional caps ($25,000 and $100,000 respectively) will continue to apply to contributions made under the work test exemption. Catch-up concessional contributions also remain permissible during the 12 months.

An exemption from the work test for retirees will allow contributions to be made for an additional 12 months.

Capping passive fees for low balance superannuation funds

From 1 July 2019 the Government will introduce a 1.5 per cent semi-annual cap on administration and investment fees charged by superannuation funds on accounts with balances below $6,000.

If the balance of a member's superannuation account is less than $6,000, the maximum amount of these fees that can be deducted from the account in the following six-month period is 1.5 per cent of the balance.

Regulations will prescribe the dates on which trustees will be required to assess the balance of the account and thus eligibility for the cap. It is expected that these dates will be 30 June and 31 December.

On 8 May 2018 draft legislation was released for these measures for consultation open until 29 May 2018.

Exit fees and inactive superannuation funds

From 1 July 2019 the Government will ban exit fees on all superannuation accounts. It will also expand the ATO's data matching process to proactively reunite inactive superannuation accounts with member's active account where possible. Superannuation accounts with a balance under $6,000 and which have been inactive for a continuous period of 13 months, will be required to be transferred to the ATO to help accommodate this measure.

On 8 May 2018 draft legislation was released for these measures for consultation open until 29 May 2018.

Insurance in super

From 1 July 2019 insurance within superannuation will move from a default framework to be offered on an opt-in basis for members:

- with balances of less than $6,000,
- under the age of 25, and
- whose accounts have not received a contribution in 13 months and are inactive.

This measure does not apply to defined benefit members or ADF (Australian Defence Force) Super members.

On 8 May 2018 draft legislation was released for these measures for consultation open until 29 May 2018.

Increasing the maximum number of members in self-managed superannuation funds and small APRA funds

From 1 July 2019, the maximum number of members allowable in a new or existing self-managed superannuation fund (SMSF) or small APRA fund will increase from four to six.

The maximum number of members allowable in SMSF will increase to six.

Preventing inadvertent concessional cap breaches

From 1 July 2018, the Government will allow individuals with multiple employers and whose income exceeds $263,157 to nominate that their wages from certain employers are not subject to the compulsory Superannuation Guarantee (SG) contributions. The employee could negotiate to receive additional income instead of the SG contributions from their employer.

Three-yearly audit cycle for some SMSFs

SMSFs currently require an annual audit. To reduce red tape for SMSFs with a history of good record keeping and compliance, the Government will change this to a three-yearly audit requirement.

This measure will start on 1 July 2019 and eligible SMSFs will be those where the trustees have a history of three consecutive years of clear audit reports and have lodged the fund's annual returns in a timely manner.

Aged care

Protecting older Australians

The Government will provide $22 million over five years from 2017-18 to protect the rights of older Australians and protect them from abuse. The Government will also work with the States and Territories to develop a nationally consistent legal framework and establish a National Register of Enduring Powers of Attorney.

Providing better access to aged care

The Government will provide an additional 14,000 new high level home care packages over four years from 2018-19 in addition to the 6,000 high level packages delivered in the 2017-18 Mid-Year Economic and Fiscal Outlook.

The additional home care packages will be complemented by the release of a further 13,500 residential aged care places and 775 short term restorative care places in the 2018-19 Aged Care Approvals Round.

The Government will provide funding for older Australians, their families and carers to access reliable and trusted information about aged care services.

The Government will combine the Residential Care and Home Care Programs from 1 July 2018 to provide greater flexibility to respond to changes in demand for residential aged care places and home care packages.

From 2018-19 Government will provide additional new high level home care packages and residential aged care places.

Providing better quality of aged care

The Government will establish a new Aged Care Quality and Safety Commission from 1 January 2019 which will combine the functions of the Australian Aged Care Quality Agency, the Aged Care Complaints Commissioner, and, from 1 January 2020, the aged care regulatory functions of the Department of Health.

The Government will provide funding to support the provision of quality care and the mental and physical health of older Australians.

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