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Impact of the May 2018 Federal Budget

Item	Description	Client Impact
Taxation		
1. Personal Income Tax		• Increasing the 32.5% upper threshold to $90,000 is a tax cut of up to $135 p.a. • With a Federal Election around the corner, there may be more tax cuts to be announced in the next year or two. • The proposed changes to take effect from 1 July 2022 are probably two elections away so may not come into force. • If the 1 July 2024 changes see the light of day, 94% of all taxpayers are projected to face a marginal tax rate of 32.5% or less. • Income tax free threshold rises from $20,542 to $21,595 with the additional $200 of Low and Middle Income Tax Offset (LAMITO) available on taxable income up to $37,000. • The LITO of $645 phases out on incomes between $41,000 and $66,667.

Income	17/18	18/19+	22/23
$0 to $18,200	Nil	Nil	Nil
$18,201 to $37,000	19%	19%	
$18,201 to $41,000			19%
$37,001 to $87,000	32.5%		
$37,001 to $90,000		32.5%	
$41,001 to $120,000			32.5%
$87,001 to $180,000	37%		
$90,001 to $180,000		37%	
$120,001 to $180,000			37%
$180,001 +	45%	45%	45%
LAMITO, (see 2) up to		$530	
LITO, up to	$445	$445	$645

From 1 July 2024 the 32.5% threshold to increase from $120,000 to $200,000.

The proposed increase to the Low Income Tax Offset (LITO) from 1 July 2022 will not affect the Senior and Pensioners Tax Offset (SAPTO).

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Item	Description	Client Impact
2. Low and Middle Income Tax Offset ("LAMITO") **Effective 1 July 2018 and ceases on 30 June 2022**	The LAMITO provides a rebate of $200 for those earning up to $37,000. This rises incrementally to a maximum offset of $530 for those earning between $48,000 and $90,000. The relief is then phased out until income reaches $125,333.	• Tax savings of $530 for those earning between $48,000 and $90,000 p.a. and lower amounts for those earning up to $125,333 p.a. • In addition to the existing Low Income Tax Offset (LITO). • Claimed on lodging your tax return so won't be received until after June 2019.
3. Medicare Levy	The Medicare Levy will no longer be increased by half a percentage point from 2 to 2.5 per cent of taxable income. The Medicare Levy low income thresholds for singles will be increased from $21,655 to $21,980 for the 2017/18 tax year. For older singles who are eligible for the SAPTO, the threshold will increase from $34,244 to $34,758. Higher rates apply for couples.	• The rise in the Medicare Levy would have been a significant extra burden on taxpayers with the burden biased towards high income earners.

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Item	Description	Client Impact
4. Other taxation initiatives	1. The full refund of franking credits to Australian taxpayers to continue. 2. Extending the $20,000 instant asset write off small businesses (those with aggregated annual turnover of less than $10,000,000) for a further 12 months to 30 June 2019. 3. Partners that alienate their income by creating, assigning or otherwise dealing in rights to the future income of the partnership will no longer be able to access the small business CGT concessions in relation to these rights where the receiving entity does not play any role in the partnership. 4. Commitment to reduce the company tax rate for all businesses to 25% over the next 10 years. 5. Additional funding to the ATO to clamp down on the black economy and illegal phoenixing activity. 6. Taxpayers will not be able to claim deductions for employees such as wages where they have not withheld any amount of PAYG from the payments despite the requirement to do so. 7. Clarification that Unpaid Present Entitlements from a trust to a company come within the scope of Div 7A and hence will be treated as a dividend from the company or as a complying loan. 8. Clarification that the concessional tax rates for minors and testamentary trusts is limited to income derived from assets that are transferred from deceased estates or proceeds of disposal or investment of those assets. Effective from 1 July 2019. 9. Increase ATO compliance activity including the detection of foreign sourced income of high net worth individuals. Effective from 1 July 2018. 10. The introduction of an economy wide cash payment limit of $10,000 applying to payments made to businesses for goods and services from 1 July 2019.	

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Item	Description	Client Impact
Superannuation		
1. Contributions	Removal of the work test for members between 65 and 74 with balances below $300,000 in the first year only after retirement, that they do not meet the work test requirement. Effective 1 July 2019. Increased ATO vigilance around notices of intention to claim a deduction for personal superannuation contributions. Superannuation Guarantee opt out for high income employers who breach the concessional cap. The opt out is targeted at those whose income exceeds $263,157 and have multiple employers. Effective 1 July 2018.	• Applies to *recent retirees* with balances under $300,000 at the start of that financial year. • Additional flexibility in the year after retirement to contribute a further $100,000 of after tax contribution and potentially $25,000 (plus carried forward unused amounts) of personal deductible contribution. • High income employees who opt out of SG can take salary instead. • If you only have one employer then the SG opt out rule does not apply given the maximum salary limit of $211,040 p.a.
2. Capping fees for low balance super accounts **Effective 1 July 2019**	Capping administration and investment fees at 3% for accounts with a balance of less than $6,000.	• The capping of fees is akin to the old Member Protection rules that previously capped certain fees for accounts under $1,000.

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Item	Description	Client Impact
3. Insurance on opt in basis for young members **Effective 1 July 2019**	Offering insurance only on an opt in basis for members under 25, inactive accounts that have not received a contribution in 13 months (where the member has not elected to retain existing cover) and low balance accounts under $6,000. Affected superannuation members will have a period of 14 months to decide whether they will opt in.	• The Government estimated that this will save $3 billion in insurance premiums (although they haven't stated over what time period). • This policy has its merits given that insurance premiums are one of the main reasons for the erosion of the super balances of young members. • Care needs to be taken given that this may cause insurance premiums to rise overall on normal automatic acceptance default arrangements. • It may have the catastrophic effect of cancelling the insurance on inactive accounts where the super is specifically held only for insurance purposes.

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Item	Description	Client Impact
4. Banning exit penalties **Effective 1 July 2019**	Banning exit fees for all superannuation accounts so as to facilitate the rollover of accounts to a different fund.	• Exit fees are generally a thing of the past so the banning thereof is not expected to affect many people. • It will be interesting to see how this is enacted given existing contractual obligations as well as if and how it is to apply to Government Super Funds as highlighted at the Royal Commission in the case of Ms McKenna.
5. Consolidation of accounts **Effective 1 July 2019**	Empowering the ATO to reunite people's lost, low and inactive accounts with their active accounts wherever possible. All inactive superannuation accounts below $6,000 will be transferred to the ATO to protect them from further erosion. The consultation period for the legislation ends on 29 May 2018.	• The transfer of inactive accounts could have serious consequences where life insurance cover is being relied upon. • The protection by the ATO hopefully does not mean "no earnings" and potentially future transfer of monies to the Government's reserves where the member cannot be identified.

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Item	Description	Client Impact
6. Self Managed Super Funds **Effective 1 July 2019**	The number of allowable members of a SMSF will increase from 4 to 6 members. Self-managed superannuation funds with a history of good record-keeping and compliance will be subject to a three-yearly audit requirement rather than an annual audit requirement. Trustees will be required to formulate a retirement income strategy (referred to as a 'covenant') for fund members. (No effective date announced).	• The increased number of members will have little impact given that most funds only have one or two members. • If the Shorten proposal for the non-refund of excess franking credits are enacted, there may be more incentive for children to be admitted to the Fund, albeit with the associated risks.

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Item	Description	Client Impact
Social Security		
1. Aged Care	Funding for an extra 14,000 high level home care packages.	• This is a cost saving initiative for the Government as well as potentially a positive social outcome for many elderly persons, wishing to remain in their own homes. • The Government is also spending more money to ensure that providers are delivering the care that the community expects and to improve access to mental health services in residential aged care facilities.
2. Pension Work Bonus **Effective from 1 July 2019**	An expanded Pension Work Bonus will allow pensioners to earn $300 per fortnight (effectively $7,800 p.a.) without reducing their pension payments. This is up from the current $250 per fortnight. The bonus will be extended to the self employed in relation to "personal exertion" income.	• This will provide further encouragement for pensioners to retain some employment (or self employment) income. • This is in addition to the income free amount which is currently $168 for a single pensioner and $300 for a couple.

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Item	Description	Client Impact
3. Pension Loan Scheme **Effective 1 July 2019**	The Pension Loan Scheme will be expanded to all Australians over age pension age (currently 65.5) including full rate pensioners and self funded retirees. The maximum combined (i.e. Age Pension and Loan Scheme payment) fortnightly income stream will be increased to 150% of the Age Pension rate.	• Older Australians will be able to use the equity in their home to increase their incomes. • Full rate pensioners will be able to increase their income by up to $11,799 p.a. (singles) or $17,787 (couples). • The current loan rate is 5.25% and existing age-based loan to value ratio limits will continue to apply. • Loan Scheme payments are non-taxable and generally not means tested.

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Item	Description	Client Impact
4. Lifetime Income Streams **Effective 1 July 2019**	*Assets Test* 60% of the purchase price will be assessed as an asset until age 84, or a minimum of five (5) years. Thereafter, 30% of the purchase price for the remainder of the individual's life. *Income Test* 60% of all lifetime income stream payments will be assessed as income.	Careful planning required before commencing such an income stream. Grandfathering of current rules apply for those lifetime income streams commenced before 1 July 2019.
5. Other social security initiatives	1. Amend the pensions means test rules to encourage the development and take up of lifetime retirement income products. 2. A new Skills and Training Incentive will provide up to $2,000 to fund up-skilling opportunities for mature age workers. 3. Access to the Restart wage subsidy will be expanded for Australians aged over 50, providing up to $10,000 to employers to support workers as they start a new career. 4. New Entrepreneurship Facilitators will help those interested in starting their own business.	

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Disclaimer

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