Federal Budget 2018: **What you need to know**

Tax changes

Seven-year personal income tax plan

The government's three-point plan for personal income tax reform will be delivered over the next seven years as follows.

Stage 1 from 2018–19:

- A new Low and Middle Income Tax Offset (LMITO) worth up to $530 p.a. will be introduced, in addition to the current Low Income Tax Offset (LITO).
- The top threshold for the 32.5% personal income tax bracket will increase from $87,000 to $90,000.

Stage 2 from 2022–23:

- The top threshold for the 19% personal income tax bracket will increase from $37,000 to $41,000.
- The top threshold for the 32.5% personal income tax bracket will increase from $90,000 to $120,000.
- The LITO will increase from $445 to $645.

Stage 3 from 2024–25:

- The 37% personal income tax bracket will be removed.
- The top threshold for the 32.5% personal income tax bracket will increase from $120,000 to $200,000.

What this could mean for you

If you're eligible for the LMITO, it will be available each year from the 2018–19 financial year until the 2021–22 financial year. You'll receive the payment as a lump sum after lodging your tax return.

For more information about the proposed changes to tax thresholds and offsets, speak to your accountant.

Maintaining the Medicare Levy at 2%

In the 2017–18 Federal Budget, an increase in the Medicare Levy rate from 2% to 2.5% of taxable income was announced, which was legislated to take effect on 1 July 2019. However, the government has confirmed it will not proceed with this initiative and the Medicare Levy will remain at 2%.

What this could mean for you

It was expected that the increased Medicare Levy would also cause increases to other tax rates linked to the top personal tax rate, including fringe benefits tax. As the Medicare Levy is remaining unchanged, these consequential increases won't take effect.

Increasing the Medicare Levy's low-income thresholds

As of 1 July 2018, the government will increase the Medicare Levy's low-income thresholds for singles, families, seniors and pensioners for the 2017–18 income year.

What this could mean for you

You won't be charged the Medicare Levy if your taxable income is below the following thresholds:

	2016–17	2017–18
Taxpayers entitled to seniors and pensioner tax offset		
Individual	$34,244	$34,758
Married or sole parent	$47,670	$48,385
For each dependent child or student, add:	$3,356	$3,406
All other taxpayers		
Individual	$21,655	$21,980
Couple/sole parent (family income)	$36,541	$37,089

Extending accelerated depreciation for small businesses

From 1 July 2018, the government will extend the existing $20,000 instant asset write-off by a further 12 months to 30 June 2019 for businesses with aggregated annual turnover less than $10 million.

Assets valued at $20,000 or more that cannot be immediately deducted can still be placed into the small business simplified depreciation pool. These assets can be depreciated at 15% in the first income year and 30% 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).

What this could mean for you

Under this measure, small businesses will be able to immediately deduct purchases of eligible assets costing less than $20,000 that are installed and ready for use before 30 June 2019.

Superannuation adjustments

A work test exemption for retirees

From 1 July 2019, people aged 65–74 who have a total superannuation balance of under $300,000 will be able to make voluntary contributions for 12 months from the end of the financial year when they last satisfied the work test.

What this could mean for you

This initiative will make it easier to keep contributing to super after you've left the workforce. For example, if you retire on 30 March 2020 and your super balance is below $300,000 on 30 June at the end of the year, you'll still be able to make voluntary contributions during the 2020–21 financial year. The usual concessional and non-concessional contribution caps will still apply.

Increasing the maximum Self-Managed Super Fund (SMSF) membership from 4 to 6 members

From 1 July 2019, the Superannuation Industry (Supervision) Act will be amended to allow the number of members in new and existing SMSFs to increase from 4 to 6. This change will also apply to Small APRA funds (funds regulated by Australian Prudential Regulation Authority).

What this could mean for you

This initiative will provide more flexibility for larger families to be members of a single SMSF, but may also increase the risk of disputes among members. It's also important to consider the need for:

- multiple investment strategies to cater for members with different risk profiles
- a corporate trustee, to avoid the risk of additional trustee penalties and to address the increased risk of fund membership changes.

Introducing a three-year audit cycle for some SMSFs

From 1 July 2019, SMSFs will have the option to move from an annual to a three-yearly audit cycle if they have:

- three consecutive years of clear audit reports, and
- lodged the fund's annual returns in a timely manner.

What this could mean for you

If your SMSF has a good compliance and lodgement record, this initiative could make it cheaper to operate your SMSF, as it will remove the need for an annual audit. If a compliance breach does occur, however, it might not be detected for up to three years, potentially making it more difficult and expensive to rectify.

Supporting mature Australians

New means testing rules for certain lifetime income streams

From 1 July 2019, new age pension means testing rules will be introduced for pooled lifetime income streams. Those purchased before 1 July 2019 will be grandfathered.

At this stage, however, it's unclear exactly which income streams will meet the definition of 'pooled lifetime income streams'.

What this could mean for you

This initiative is designed to help you avoid the risk of outliving your income. Under the new rules:

- 60% of all income payments will be assessed as income, and
- 60% of the purchase price will be assessed as an asset until you turn 84 (or a minimum of 5 years) and then 30% of the purchase price will be assessed as an asset for the rest of your life.

Expanding the Pension Work Bonus

The Pension Work Bonus currently allows age and service pension recipients to earn up to $250 per fortnight without it impacting their pension entitlements. Under the proposed changes, this amount will increase to $300 per fortnight from 1 July 2019. The scheme will also be extended to pensioners who are self-employed.

Pensioners will still be able to accrue unused amounts of the bonus, so that their future earnings will also be exempt from the pension income test. The maximum accrual amount will increase from $6,500 to $7,800 a year.

What this could mean for you

The Pension Work Bonus is provided in addition to the income-free area of your pension. So if you're a single person with no other income source apart from your pension and wages, you could earn up to $468 a fortnight from working and still be entitled to the maximum age pension.

Extending eligibility for the Pension Loan Scheme

Under the current rules, pensioners can top up their age pension to the maximum rate if they:

- receive a part pension under the income or assets test, or
- don't receive an age pension under either the income or assets test (but not both).

This allows pensioners to take advantage of a voluntary reverse mortgage scheme, under which Centrelink treats the top-up payments as a loan that is secured by the pensioner's property. This loan must be repaid when the pensioner either sells the property or passes away.

From 1 July 2019, the government proposes to expand the scheme by making all age pensioners eligible and increasing the maximum top-up payments from 100% to 150% of the maximum age pension rate.

What this could mean for you

If you're receiving the maximum age pension, you could be eligible for annual top-up pension payments of up to $11,799 for singles or $17,877 for couples. However, some restrictions may apply, depending on factors such as:

- your age
- whether you are single or a member of a couple
- the value of your home
- the expected duration of these top-up payments.

Increasing the availability of home care packages

Since last year's Federal Budget announcement, the government has provided an additional 6,000 high-level home care packages. From 1 July 2018, the government will supplement this with a further 14,000 new packages over the next four years.

What this could mean for you

As at 31 December 2017, there were over 100,000 people in the national queue waiting for either their first home care package or an interim package, with 54.4% waiting for a high-level (Level 4) package. If you're in this situation, the initiative could help you access a home care package sooner.

Additional funding for residential aged care and short-term restorative care

During the 2018–19 financial year, the government will provide $60 million to fund additional places in residential aged care and short-term restorative care. A further $82.5 million will support mental health services for residents of aged care facilities.

What this could mean for you

As part of this initiative, the government will simplify the aged care assessment forms available via the My Aged Care website. This will make it easier to access the aged care services that you or your loved ones need.

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