

Federal Budget Analysis 2018

On the 8th May 2018, Scott Morrison handed down his third Federal Budget as Treasurer. Economic growth this year will be 4.25%, up from a forecast 3.5%. This translates to a near \$26 billion revenue windfall to the Government's coffers with half of this increase a result of improvements in personal income tax receipts.

One of the more significant announcements in the Budget, is the Government's resolve to reduce personal income tax over stages starting with tax relief for low and middle income earners from 1st July 2018 and culminating in the elimination of the 37% tax bracket from 1st July 2024.

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.

Taxation

Personal income tax rates

From 1st July 2018, the Government will increase the top threshold of the 32.5% personal income tax bracket from \$87,000 to \$90,000.

Taxable Income	Tax Payable / Marginal Rate
Up to \$18,200	Nil
\$18,201 - \$37,000	Nil + 19% of each dollar over \$18,200
\$37,001 - \$87,000 \$90,000	\$3,572 + 32.5% of each dollar over \$37,000
\$87,001 \$90,000 - \$180,000	\$19,822 \$20,796 + 37% of each dollar over \$87,000 \$90,000
Over \$180,000	\$54,232 \$54,096 + 45% of each dollar over \$180,000

Tax relief to low and middle income earners

A Low and Middle Income Tax Offset will be introduced. The offset is a non-refundable tax offset of up to \$530 per annum which is received as a lump sum after an individual lodges their tax return.

Taxable Income	Offset benefit
< \$37,000	\$200
\$37,000 - \$48,000	\$200 increase at 0.03 per dollar to a maximum of \$530
\$48,000 - \$90,000	\$530
\$90,001 - \$125,333	phase out at 1.5% per dollar

Making the tax system simpler

The 37% tax bracket will be removed entirely from the 1st July 2024. The top threshold of 32.5% personal income tax bracket will be increased from \$120,000 to \$200,000. Taxpayers will pay the top marginal tax rate of 45% from taxable incomes exceeding \$200,000 and the 32.5% tax bracket will apply to taxable incomes of \$41,001 to \$200,000.

Extending the \$20,000 instant asset write off

For a further 12 months until 30th 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 30th June 2019.

Superannuation

Work test exemption

From 1st July 2019, the Government will introduce an exemption from the work test for voluntary contributions to superannuation. This is available for retirees who are 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.

Retirement income framework

Means test rules for lifetime income streams

The Government has announced new means test rules for lifetime retirement income stream products. The rules announced are proposed to come into effect on 1st July 2019 and the existing rules will remain in place until then.

The proposed rules are:

Assets Test – 60% 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% is assessed as an asset for the rest of a person's life.

Income Test - A fixed 60% 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.

Aged Care

Protecting older Australians

The Government will provide \$22 million over five years 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. 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. The Government will provide funding for older Australians, their families and carers to access reliable and trusted information about aged care services.

Social Security

Pension work bonus

From 1st July 2019, there will be subsidies of \$10,000 for employers who take on older workers to combat age discrimination. 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).

Introduce income test for Carer allowance

From 20th 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.

Already legislated changes

Centrelink age pension recipients travelling overseas

- If you leave Australia for less than 6 weeks, any age pension payment rate won't change.
- If you leave Australia for more than 6 weeks, the pension supplement will drop to the basic rate and the energy supplement will stop.
- If you leave Australia for more than 26 weeks and were an Australian resident for 35 years or more your rate normally won't change. If you were an Australian resident for less than 35 years you will normally receive a lower rate. For example, if you were a resident for 10 years, you'll get 10/35ths of the usual rate.

Other news

NAB announces sale of wealth business

- NAB has announced plans to sell its wealth management business by the end of 2019, so that it can be managed as an independent entity to the bank. We view this as a positive step and in line with current thinking in the field.
- Whilst we are still licensed through nab financial planning, we moved to a more independent structure over 3 years ago.
- NAB has already sold part of its insurance business to Nippon last year and this transition was completed smoothly.
- Some of our clients hold MLC products and can rest assured that it will remain business as usual for their investments.

Any questions?

We hope you have found this useful. We will continue to keep you informed as to whether these proposed Budget changes are actually adopted. If you have any questions or wish to discuss anything please call us on 03 9544 1004.

All the best,

Andrew Shaw BBus, Grad Dip SIA, CFP

Principal

nab financial planning Mount Waverley Pty Ltd

Please note, any advice in this communication has been prepared without taking account of your objectives, financial situation or needs. Because of this you should, before acting on any advice, consider whether it is appropriate to your objectives, financial situation and needs.

National Australia Bank Limited ABN 12 004 044 937, registered office 500 Bourke Street Melbourne VIC 3000, is an Australian Financial Services Licensee and member of the National Australia Bank group of companies. From time to time National Australia Bank Limited, members of the National Australia Bank group of companies, associated employees or agents may have an interest in or receive pecuniary and non pecuniary benefits from the financial products and services mentioned herein.