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2018 Federal Budget Summary

There were few surprises in the 2018 Federal Budget. It focussed on balancing prudent economic management and the offer of pre-election sweeteners.

An expected return to budgetary surplus in 2019/20, a year ahead of expectations, is the lynchpin of their financial credibility.

The Federal Government is also committing funding to some key financial areas including:

- \$130.8 million to the Australian Taxation Office to increase compliance activities to target individual taxpayers & tax agents.
- \$10.6 million over 2 years to the Australian Securities and Investment Commission, and \$2.7 million to the Australian Prudential Regulation Authority (recouped via increased levies). The purpose is to fund activities in relation to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

This summary is by no means exhaustive, so if you have queries on any specific announcement not covered here please contact us for more information.



Watch for our thumbs up/down emojis on each item.

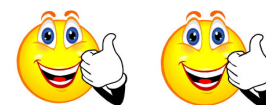
Summary of the key announcements

- ➔ Seven year personal income tax plan.
- ➔ Medicare levy frozen at 2% (expected rise to 2.5% has been cancelled).
- ➔ Small business instant asset write-offs to be extended for another year.
- ➔ Increase Pensioner Work Bonus income thresholds.
- ➔ Centrelink testing of Pooled Lifetime Products confirmed.
- ➔ Expansion of Home Care.
- ➔ National register for Enduring Powers of Attorney.
- ➔ Super work test exemption for 65-74 year olds with low Super balances.
- ➔ Personal deductible contributions will have tax return obligations.
- ➔ Fee caps, banning exit fees and consolidating inactive Super accounts.

The contents of this Federal Budget Update represent a selection of the announcements made on 08 May 2018. It is not exhaustive. We have selected specific issues based on our belief of their importance to strategies adopted by our clients. For more detail on any Budget announcement please contact us.

Seven Year Personal Income Tax Plan...

Three steps will be involved in this migration to the announced changes.



STEP 1 – 01 July 2018 through to 30 June 2022:

- Introduction of a Low and Middle Income Tax Offset (LMITO) of up to \$530 pa. This would be an additional tax offset to the existing Low Income Tax Offset.
- Extend the top threshold for the 32.5% personal income tax bracket from \$87,000 to \$90,000.

STEP 2 – 01 July 2018 through to 30 June 2022:

- Extend the top threshold for the 19% personal income tax bracket from \$37,000 to \$41,000.
- Extend the top threshold for the 32.5% personal income tax bracket from \$90,000 to \$120,000.
- Increase the Low Income Tax Offset from \$445 to \$645.

STEP 3 – 01 July 2018 through to 30 June 2022:

- Removal of the 37% personal income tax bracket.
- Extend the top threshold for the 32.5% personal income tax bracket from \$120,000 to \$200,000.

JWFS Comment

This appears to be a tax plan that could offer tax savings over time to most Australians earning under \$200,000 per annum. The cumulative savings will be worth more than a single years worth!

Medicare levy to remain at 2%...



From 01 July 2018 the Medicare levy will be frozen at 2% (instead of the expected increase to 2.5% announced in the 2017 Federal Budget), and low-income thresholds for payment of the levy will be increased (or indexed) by 1.5%.

Small Business Instant Asset Write-Offs to be extended...



Instant asset write-offs for small business that were to end on 30 June 2018 will be extended one year, to 30 June 2019. Businesses with aggregated annual turnover of less than \$10 million can immediately deduct purchases of eligible assets costing less than \$20,000.

JWFS Comment

Aimed squarely at continuing the stimulation of business spending. We expect this will capitalise on the current business spending that is taking over from fading housing construction as a major contributor to the economy.

Increase Pensioner Work Bonus...



From 01 July 2019 the income a person of Age Pension age can earn from employment will be increased to \$300 per fortnight (up from \$250 per fortnight). This income is exempt from the Income Test. The definition of employment will be extended to include self employment.

JWFS Comment

A positive outcome for those still working beyond Age Pension age who can access Age Pension benefits.

Pooled Lifetime Products receive confirmation of Centrelink testing...



The Government has now provided confirmation of how Centrelink will assess Pooled Lifetime Products. The 2016-17 Federal Budget implemented legislation enabling superannuation funds and life insurance companies to offer a new range of products, but the absence of the Centrelink assessment has curbed product development.

JWFS Comment

The confirmation of social security means testing, coupled with the recently announced comprehensive product innovation will now likely see more product options become available for retirees.

Expansion of Home Care...



Over the next four years another 14,000 high level home care packages to be offered.

JWFS Comment

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. Therefore this piece of legislation is looking to help address a backlog of existing need.

National Register of Enduring Powers of Attorney...



The Elder Abuse Report handed down in June 2017 recommended that a National Register be formed. No date has yet been specified for the introduction of the register.

JWFS Comment

Reasons for establishing this register are logical, and include:

- Ensuring only one enduring document is registered at any one time;
- Enabling easy identification of documents that are 'live';
- Providing clarity as to the precise roles and powers of the Attorney.

Focus on comprehensive income product innovation for retirees...



A Retirement Income Covenant will be introduced in the superannuation law, requiring superannuation trustees to develop a strategy that would help members achieve their retirement income objectives. The focus will be on providing a higher standard of living for retirees.

JWFS Comment

First comes a Position Paper, then industry consultation, then legislative change, and lastly a lag time to allow product manufacturers to adjust their product offering/s. It would seem at first glance that more wide-spread access to Annuities, or Annuity-like products may be a key outcome.

Super work test exemption...



From 01 July 2019 those retirees aged 65-74 years, with Superannuation account balances of less than \$300,000, will be able to make superannuation contributions without meeting the work test. Their ability to make these contributions will be limited to the year following the last year they met the work test. Normal contribution caps will apply

JWFS Comment

A change with limited scope. It relies on the individual meeting the work test the year immediately prior to contribution, but also an account balance assessment to ensure they are under the \$300,000 balance threshold. Definitely a step in the right direction, but widening the scope of this would have a much more influential outcome.

Tax Return Requirements for Personal Deductible Contributions...



Effective 01 July 2018, anyone claiming a personal tax deduction for superannuation contributions will need to indicate in their Tax Return that they have provided their Superannuation product with a Notice of Intent to claim that tax deduction. The Australian Taxation Office will be data-matching with Superannuation providers to identify deductions that will be denied if this is not completed.

Fee caps, Banning exit fees & Consolidating inactive accounts...

Effectively an exercise in tidying up, with fees on Super capped at 3%, all exit fees banned, and the Australian Taxation Office looking to match inactive accounts with their rightful owners.

This advice may not be suitable to you because it contains general advice that has not been tailored to your personal circumstances. Please seek personal financial, tax and/or legal advice prior to acting on this information. The material contained in this document is based on information received in good faith from sources within the market, and on our understanding of legislation and government press releases at the date of publication, which are believed to be reliable and accurate. Opinions constitute our judgement at the time of issue and are subject to change.

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