Federal Budget Overview

2019 / 20

VERVEGROUP

2019/20 FEDERAL BUDGET OVERVIEW

On Tuesday 2 April, the Federal Government handed down its Budget for the 2019-20 financial year. This is the first Budget delivered by Treasurer Josh Frydenberg and will be the final Budget before the next Federal Election.

The theme of this year's Budget is 'A stronger economy and a secure future'. According to the Treasurer, the measures in this year's Budget will not only lower personal taxes and return the Budget to surplus, they also help older Australians continue contributing to super and provide tax breaks for small-to-medium businesses.

Mr Frydenberg said the Budget is "back in the black", announcing a budget surplus of $7.1b, and forecasting a surplus of $11b in 2020/21, $17.8b in 2021/22 and $9.2b in 2022/23.

Budget Discussion

with Directors Marc Loader and Matthew Carberry

"The three big wins coming out of Treasurer Frydenberg's first budget are the further lowering of personal tax rates, as well as the instant asset write-off for businesses being increased to $30,000 (effective immediately) and extended to 30 June 2020.

Lastly, immediate tax relief of up to $1,080 will be available to low and medium income earners, after they lodge their end of year returns from 1 July 2019."

Marc Loader
Director

"Those approaching retirement or in their early years of retirement will benefit from the changes related to the super contribution rules. Removing the work test and giving access to the bring-forward rule for those aged 65 and 66 years aligns with the reality that our ageing population are living and working for longer, hence needing policy in place to allow them to adequately save for retirement."

Matthew Carberry
Director

INCOME TAX

Extension to personal income tax rates

Over the next five years, many Australians will receive a decrease to their income tax rate in one of three ways:

1. The upper threshold for the 19% marginal tax rate will increase from $37,000 to $45,000.

2. The 32.5% marginal tax rate will reduce to 30%.

3. The 37% marginal tax rate will be abolished (this change has already been legislated).

These changes will be progressively rolled out between now and 1 July 2024, as shown in the table below.

Tax rates	To 30 June 2022	1 July 2022 to 30 June 2024	1 July 2024 onwards
Nil	Up to $18,200	Up to $18,200	Up to $18,200
19%	$18,201-$37,000	$18,201-$45,000	$18,201-$45,000
32.5% (30% from 1 July 2024)	$37,001-$90,000	$45,001-$120,000	$45,001-$200,000
37%	$90,001-$180,000	$120,001-$180,000	N/A
45%	Above $180,000	Above $180,000	Above $200,000

Immediate changes to The Low-to-Middle Income Tax Offset (LMITO)

The LMITO will be changed such that the reduction in tax it provides will increase from a maximum amount of $530 to $1,080 p.a., and the base amount will increase from $200 to $255 p.a. for the 2018/19 to 2021/22 income years.

The LMITO will provide a reduction in tax of up to $255 for taxpayers with a taxable income of $37,000 or less. Between taxable incomes of $37,000 and $48,000, the value of the offset will increase at a rate of 7.5 cents per dollar to the maximum offset of $1,080. From taxable incomes of $90,000 to $126,000 the offset will phase out at a rate of 3 cents per dollar.

The LMITO will be received after individuals lodge their 2018/19 tax returns and will continue to be provided **in addition to** the Low Income Tax Offset (LITO). The maximum LITO is currently $445.

From 1 July 2022, both the LMITO and LITO will be replaced by **a single LITO**. In the 2018/19 Federal Budget, the Government announced that the maximum single LITO will be $645.

In the 2019/20 Federal Budget, the Government has now announced that the maximum single LITO will be **increased to $700.** The increased LITO will be withdrawn at a rate of 5 cents per dollar between taxable incomes of $37,500 and $45,000. LITO will then be withdrawn at a rate of 1.5 cents per dollar between taxable incomes of $45,000 and $66,667.

Increasing the Medicare levy low-income thresholds

The Government will increase the Medicare levy low-income thresholds for singles, families, and seniors and pensioners from the 2019 income year, as follows:

Tax rates	2017-18	2018-19
Taxpayers entitled to seniors and pensioners tax offset		
Individual	$34,758	$35,418
Married or sole parent	$48,385	$49,304
For each dependent child or student, add:	$3,406	$3,471
All other taxpayers		
Individual	$21,980	$22,398
Couple/sole parent (family income)	$37,089	$37,794

- The threshold for **singles** will be increased from $21,980 to $22,398.
- The **family** threshold will be increased from $37,089 to $37,794.
- The threshold for **single seniors and pensioners** will be increased from $34,758 to $35,418.
- The **family** threshold for **seniors and pensioners** will be increased from $48,385 to $49,304.

For each dependent child or student, the family income thresholds increase by a further $3,471, up from the previous amount of $3,406.

What does this mean for you?

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

BUSINESS TAX

Increasing and expanding access to the instant asset write-off

The Government has announced that it is increasing and expanding access to the instant asset write-off with effect from 7.30 PM (AEDT) on 2 April 2018 (i.e. "Budget night) **until 30 June 2020.** *There are 2 key changes:*

First, the instant asset write-off threshold is to **increase from $25,000 to $30,000**. The threshold applies on a per asset basis, so eligible businesses can instantly write off multiple assets.

Small businesses (with an aggregated turnover of less than $10 million) will be able to immediately deduct purchases of eligible assets costing less than $30,000 that are first used, or installed ready for use, **from Budget night up until 30 June 2020.** Only a few assets are not eligible (such as horticultural plants and in-house software).

The second important change is that the instant asset write-off has been **extended to medium sized businesses**, where it previously only applied to small business entities. Medium sized businesses (aggregated turnover of $10 million or more, but less than $50 million) will also be able to immediately deduct purchases of eligible assets costing less than $30,000 that are first used, or installed ready for use, **from Budget night to 30 June 2020.**

To be eligible, medium sized businesses must also acquire these assets *after* Budget night to be eligible as these businesses have previously not had access to the instant asset write-off.

Claiming an instant asset write-off prior to Budget night

On 29 January, the Government announced that it would increase the write-off threshold from $20,000 to $25,000. Assuming relevant legislation is enacted as proposed, the instant asset write-off threshold applicable to small business taxpayers in the 2019 income year is as follows:

1 July 2018 - 28 January 2019: less than $20,000

29 January 2019 - before 7.30 PM (AEDT) on 2 April 2019: less than $25,000

From 7.30 PM (AEDT) on 2 April 2019 - 30 June 2019: less than $30,000

New Deductible Gift Recipients (DGR)

The following organisations have been approved as specifically-listed deductible gift recipients from 1 July 2019 to 30 June 2024:

- Australian Academy of Law;
- China Matters Limited;
- Foundation Broken Hill Limited;
- Motherless Daughters Australia Limited;
- Superannuation Consumers Centre Limited; and
- The Headstone Project (Tasmania) Incorporated.

The Government will also establish a deductible gift recipient (DGR) general category to enable Men's Sheds and Women's Sheds to access DGR status from 1 July 2020.

Battling for Tax Integrity

Tax Avoidance Taskforce on Large Corporates

The Government will provide $1.0bn over 4 years from 2019-20 to the ATO to extend the operation of the Tax Avoidance Taskforce and to expand the Taskforce's programs and market coverage.

The Taskforce undertakes compliance activities targeting multinationals, large public and private groups, trusts and high wealth individuals. This measure is intended to allow the Taskforce to expand these activities, including increasing its scrutiny of specialist tax advisors and intermediaries that promote tax avoidance schemes and strategies.

The Government has also provided $24.2m in 2018-19 to Treasury to conduct a communications campaign focused on improving the integrity of the Australian tax system.

ATO focus on recovery of tax and super

The Government will provide $42.1 million over four years to the ATO to increase activities to recover unpaid tax and superannuation liabilities. These activities will focus on larger businesses and high wealth individuals (HWI) to ensure on-time payment of their tax and superannuation liabilities. The measure will not extend to small businesses.

In underlying cash balance terms, the measure is estimated to have a gain to the budget of $103.6 million over the forward estimates.

SUPERANNUATION

No work test for voluntary contributions by people aged up to 66

From 1 July 2020, the Government will update the superannuation contribution rules to allow people aged 65 and 66 to make voluntary contributions to superannuation without meeting the work test. Voluntary contributions include after-tax (non-concessional) contributions, tax-deductible (concessional) contributions, voluntary employer contributions and spouse contributions.

Bring-forward rule extended to people up to 66

The Government will update the superannuation contribution rules to allow people aged under 67 to make three years' worth of after-tax (non-concessional) contributions in a single year. Under current contribution caps, that would enable under-67-year-olds to contribute up to $300,000 in one year.

Spouse contributions extended to people aged up to 74

Under the proposed changes, individuals will be able to contribute to their spouse's superannuation where the receiving spouse is under age 75. In addition, if the receiving spouse is aged 65 or 66, they will no longer need to meet a work test. The work test will continue to apply if the receiving spouse is aged 67 or over.

What this could mean for you

Currently, for you to make a spouse contribution, your spouse must be under age 70 at the time of the contribution, and must meet the work test if they are aged between 65 and 69. This change enables you to make spouse contributions for a further five years, giving you more opportunities to equalise your superannuation balances while potentially claiming a tax offset.

SOCIAL SECURITY, HEALTH, & AGED CARE

One-off Energy Assistance Payment for social security pension recipients

Social security pension recipients will receive a one-off Energy Assistance Payment to help with increased power bills. The payment will be $75 for singles and $125 for couples, and will be exempt from income tax.

If you receive an Age Pension, Disability Support Pension, Carer Payment, Parenting Payment Single, or certain payments from the Department of Veterans Affairs, such as the Service Pension or War Widow(er)s Pension, you could be eligible for a one-off payment by the end of the 2020 financial year.

Increased access to diagnostic imaging and higher Medicare rebates

The Government will provide $309 million to improve access to diagnostic imaging, with $199 million provided to increase patient rebates for items on the Medicare Benefits Schedule (MBS) from 1 July 2020. Additionally, the Government has allocated $187 million to increasing patient rebates for 119 General Practitioner service items.

Funding for 10,000 extra home care packages and 13,500 residential care places

The Government will provide $724.8 million over five years from 2018-19 to fund improvements in residential and home care services, including a one-off increase to the basic subsidy for residential aged care recipients, 13,500 additional residential aged care places, and 10,000 additional home care packages.

These measures continue efforts in recent Budgets to reduce waiting times for both home care packages and residential care places, as well as subsidising the cost of providing residential care. As at 31 December 2018, around 74,000 Australians were in the queue for a home care package, down from more than 100,000 a year before. If you or a family member are in this situation, these measures could help provide more choice and enable you to access services sooner.

Extension of Commonwealth Home Support Program

The Government will provide $5.9 billion to extend funding for the Commonwealth Home Support Program (CHSP) until 30 June 2022. Funding is currently due to cease on 30 June 2020.

The CHSP contributes to essential home support services, including Meals on Wheels, personal care, nursing, domestic help, home maintenance, and community transport. If you or a family member rely on these services to continue living independently, this funding extension will provide further support over the next few years.

OTHER MEASURES

Business

- A new $3.9 billion Emergency Response Fund to help agribusinesses recover from natural disasters.

Education and skills

- $525.3 million to help modernise the vocational training sector, including funding up to 80,000 new apprenticeships.
- $93.7 million over four years for scholarships to study in regional Australia.
- $10 million over four years to help educate Australian children, parents and teachers on cyber-safety.
- Abolition of the $3.9 billion Education Investment Fund to finance the new Emergency Response Fund.

Health and Aged Care

- A planned $5 billion investment over 10 years in the Medical Research Future Fund, including $614 million for rare cancers and diseases, $220 million for cardiovascular health, $605 million for clinical infrastructure and $150 million for stem cell research.
- $737 million for mental health over seven years, including $461 million for youth mental health services.

The Environment

- An additional $2 billion for the Government's Climate Solutions Fund.

Speak to Verve Group if you'd like to understand more about how the Federal Budget announcement might impact your situation.

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