Federal Budget Summary 2019

In this special report, our Head of Professional Standards & Technical Services, Craig Meldrum, looks at the key takeouts from the federal budget and what it means for individuals and businesses, for tax, superannuation and social security that may impact wealth creation and retirement funding strategies for Infocus' advisers and clients.

The macro

The 2019-20 Federal Budget is notable in that it has been handed down roughly five weeks earlier than usual and will be the platform through which the Government drives its policy agenda toward a possible 18 May Federal Election.

This is Treasurer Josh Frydenberg's first budget, an election budget. Did he deliver? We've been obsessed as a nation with returning the budget to surplus since the then-Labor Government's post-GFC cash-splash and subsequent year-on-year deficits. But was this the year?

Well, almost. From a serviceable $4.2 billion dollar deficit, the Treasurer, citing higher export receipts and tax revenues, has forecast a healthy $7.1 billion surplus for 2019-20 growing over the forward estimates to $45 billion ($11 billion in 2020-21; $17.8 billion in 2021-22 and $9.2 billion in 2022-23).

Total revenue for 2019-20 is expected to increase by 3.6% over 2018-19 figures to $513.8 billion with the economy forecast to grow by 2.75% in 2019-20 and 2020-21.

The Treasurer earmarked increased spending on healthcare to a record $89.5 billion in 2022-23, which would be an increase of nearly 10% on expected spending in 2019-20 and repeating previously announced measures, stated the Government would spend $100 billion on infrastructure over the next decade to reduce congestion and improve links between Australia's cities and regional towns with spending on rural infrastructure forecast to rise by nearly 30%, with $4.5 billion to be spent on improving country roads.

What are the pre-election goodies?

For individuals, the key budget spend was the promise of $158 billion worth of tax cuts, primarily aimed at middle-income earners.

The Government announced that for taxpayers earning up to $126,000 per annum, the low and middle income tax offset (LAMITO) will be increased to $1,080 from 2018-19. For a single income family, this means up to $1,080 in their pocket per year. For families on a dual income, it would be up to $2,160. The measure is expected to help more than 10 million taxpayers, with 4.5 million receiving the full amount. This relief will be available to Australians after tax returns for the 2018-19 year are submitted from 1 July 2019.

The Government has also proposed lowering the 32.5% tax rate to 30% from 1 July 2024. This would cover taxpayers earning between $45,000 and $200,000 and will mean that 94% of taxpayers will pay no more than 30 cents in the dollar. But wait, there's more …

What were the main revenue measures

There were many measures announced but those measures more relevant to financial strategies impacting advisers and their clients included the following;

- For Small and Medium Enterprises (SMEs): increasing the instant asset write-off from $25,000 to $30,000, with effect from budget night (which will also apply to businesses with a turnover of up to $50 million up to 30 June 2020).
- Grants will be tax-exempt for primary producers, small businesses and non-profit organisations affected by the North Qld floods.
- Increasing the Medicare levy low-income thresholds.
- Providing an immediate one-off rebate on energy costs to pensioners of $75 for an individual or $125 for couples.
- The Government also said it would accelerate tax cuts for small businesses, with the tax rate for businesses with a turnover of less than $50 million cut to 25% in 2021-22.

The detail

Personal taxation

As mentioned, the Government announced it will provide a further reduction in tax through the non-refundable low and middle income tax offset (LAMITO). Under the changes, the reduction in tax provided by LAMITO will increase from a maximum amount of $530 to $1,080 per annum and the base amount will increase from $200 to $255 per annum for the 2018-19, 2019-20, 2020-21 and 2021-22 income years.

With previously announced tax changes, what does that do to marginal rates?

To briefly summarise, the following rates and thresholds need to be considered for the period from 1 July 2022;

- The Government proposes to increase the top threshold of the 19% personal income tax bracket from $41,000, as currently legislated, to $45,000.
- The Government also proposes to increase the low income tax offset (LITO) from $645, as currently legislated, to $700. The increased LITO will start to reduce at a rate of 5 cents per dollar where taxable income exceeds $37,500 and then at a rate of 1.5 cents per dollar between taxable incomes of $45,000 and $66,667.

- From 2024-25, the Government said it would reduce the 32.5% marginal tax rate to 30%. This will more closely align the middle tax bracket of the personal income tax system with corporate tax rates. In 2024-25, the entire 37% tax bracket will be abolished under the Government's already legislated plan. Therefore, with the Government's announced changes, from 2024-25, there would only be 3 personal income tax rates – 19%, 30% and 45%.

Medicare levy low-income thresholds for 2018-19

It is expected a bill will be introduced shortly to amend the Medicare levy low income thresholds for the 2018-19 and later income years as follows;

- Singles – increased to $22,398 (up from $21,980 for 2017-18).
- Couples with no children – the family income threshold will be increased to $37,794 (up from $37,089 for 2017-18).
- The additional amount of threshold for each dependent child or student will be increased to $3,471 (up from $3,406).
- Single seniors and pensioners eligible for the SAPTO – the threshold will be increased to $35,418 (up from $34,758 for 2017-18).
- The family threshold for seniors and pensioners will be increased to $49,304 (up from $48,385), plus $3,471 for each dependent child or student.

Superannuation

- Superannuation has thankfully been spared any major changes and the measures proposed are perhaps some welcome tweaks rather than wholesale reform. To summarise, from 1 July 2020;
- Individuals aged 65 and 66 will be able to make voluntary superannuation contributions (both concessional and non-concessional) without needing to meet the contributions work test of 40 hours of gainful employment over a 30 consecutive day period after turning 65.
- The bring forward rule will be extended to those aged 65 and 66 to allow them to contribute up to $300,000 as a non-concessional contribution in a single year.
- There has been no mention of changing the annual concessional and non-concessional cap limits of $25,000 and $100,000 respectively.
- The age limit for making spouse contributions will be increased from 69 to 74 (currently, those aged 70 and over cannot receive contributions made by another person on their behalf), which, work test notwithstanding, could allow more people to benefit from the Spouse Contributions Tax Offset of up to $540 in respect of eligible contributions made on behalf of their spouse.
- From 1 July 2020, the calculation of exempt current pension income (ECPI) is set to be simplified. Without going into detail on the attributes of the proportionate and segregated methods, superannuation fund trustees with interests in both accumulation and pension phase will be able to choose their preferred way of calculating ECPI. The Government also intends to remove a redundant requirement for superannuation funds to obtain an actuarial certificate when calculating ECPI using the proportionate method, where all members of the fund are fully in the retirement phase for all of the income year.
- As announced as part of the Treasury Laws Amendment (Putting Members' Interests First) Bill 2019, which was introduced in the House of Representatives on 20 February 2019, the Government confirmed that it will delay the start date to 1 October 2019 for ensuring insurance within superannuation is only offered on an opt-in basis for accounts with balances of less than $6,000 and new accounts belonging to members under age 25.

Social Security and Aged Care

Social security and aged care are always the other favourite area for governments to tweak and change but have largely been ignored in this budget, despite ongoing calls for an increase in the rate of Newstart Allowance to help assist jobseekers with cost of living pressures. The Royal Commission into Aged Care Quality and Safety is still underway so it would not be expected that we'd see any significant measures proposed until the Government responds to the final report due to be released by 30 April 2020.

The only significant social security measure announced was a one-off, tax-free energy payment to pensioners to assist with the rising cost of energy. The measure (which Labor has indicated it would likely support) provides for a one-off payment of $75 for singles and $125 for eligible couples ($62.50 for each member), who were eligible for qualifying payments on 2 April 2019 and who are resident in Australia. The payment will be exempt from income tax and will be paid automatically before the end of the current financial year, subject to the passage of legislation.

From an aged care perspective, the Government will provide $282.4 million over 5 years from 2018-19 for the release of an additional 10,000 home care packages across the 4 package levels bringing the number of new packages announced over the last 18 months to 40,000.

Business taxation

Small and medium enterprises (SMEs) have had a bit of a win with the Budget containing important changes to the instant asset write-off rules. The two main changes are an increase in the instant asset write-off threshold and its extension to medium-sized businesses.

Increase in the instant asset write-off threshold

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. The threshold increase will apply from 2 April 2019 to 30 June 2020.

This means that small business entities (ie those with aggregated annual 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 (ie 2 April 2019) to 30 June 2020. Small businesses can continue to place assets which cannot be immediately deducted into the small business simplified depreciation pool and depreciate those assets at 15% in the first income year and 30% each income year thereafter. The pool balance can also be immediately deducted if it is less than the applicable instant asset write-off threshold at the end of the income year (including existing pools). The current "lock out" laws for the simplified depreciation rules (ie these prevent small businesses from re-entering the simplified depreciation regime for 5 years if they opt out) will continue to be suspended until 30 June 2020.

Medium sized businesses

Medium sized businesses (ie, those with aggregated annual 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. The concession will only apply to assets acquired after 2 April 2019 by medium sized businesses (as they have previously not had access to the instant asset write-off) up to 30 June 2020.

Conclusion

Did the Treasurer deliver? In true Coalition form, the Government has not moved too far from a platform of continued sustainable and responsible economic management. For an election budget I had expected to see a bit more candy to woo the Labor heartland in terms of further relief from cost of living pressures for retirees and low-income families particularly. There is some of that in this budget, but this is more of a direct shoutout to the middle class and small and medium businesses to get on with growing the economy, delivering jobs and ensuring a strong surplus.

The timeframe for the Government to introduce legislation and to implement any of these measures is incredibly short. It will be interesting seeing the Opposition's reply which will then put the major parties' agendas on the front page for the whole country to digest before we head off to the polls in mid-May.