barnett financial planning

May **2018**

How will the Budget **affect you?**

This year's Federal Budget is an 'election budget' with tax cuts for all Australians that will be funded by the Government's higher than expected revenue. All-in-all, changes to super were fairly limited in the Budget, with the Government focused on preventing the erosion of super funds with small balances.

Some of the key points from the Budget are below, but remember these are subject to the passing of legislation.

- A new tax offset for low and middle income earners, up to $530 per year.
- Super accounts with small balances will have more protection from fee erosion and unnecessary insurance premiums.
- People receiving the Age Pension will be able to earn up to $300 per fortnight without it affecting the amount of their Age Pension.
- More aged care places to assist older Australians.

Taxation

Changes to the marginal tax rate

From 1 July 2018, the 32.5% upper threshold is proposed to increase from $87,000 to $90,000. This would increase to $120,000 from 1 July 2022, before increasing again to $200,000 from 1 July 2024.

According to the Treasury, this will mean that when these increases are implemented and combined with the tax offset, 94% of taxpayers will be on a marginal tax rate of 32.5%.

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Low and middle income tax offset

The Government will also introduce the low and middle income tax offset which will apply from 1 July 2018 to 30 June 2022. The offset will be based on your income as shown in the following table.

Taxable income per year	Offset available per year
Up to $37,000	$200
$37,001 to $48,000	$200 plus 3 cents for every dollar over $37,000
$48,001 to $90,000	$530 flat
$90,001 to $125,333	$530 less 1.5 cents per dollar over $90,000
$125,334 or above	No rebate available

This will be paid in addition to the current $445 Low Income Tax Offset.

Business taxation

You will continue to be able to write off business assets of up to $20,000 until 30 June 2019. This measure was due to expire at 30 June this year.

To crack down on the black economy – which is when cash is used to make payments so tax can be avoided – from 1 July 2019, payments in cash for goods and services over $10,000 will be banned. From the same date, business owners will no longer be able to make tax deductions where they have not withheld any amount of PAYG in their staff payments, or where a contractor does not supply an ABN.

Tax integrity

From 1 July 2019, you will no longer be able to claim a tax deduction on vacant land.

How will the Budget **affect you?** continued

Super

Protecting your super

From 1 July 2019, exit fees will be banned on all super accounts, regardless of the balance, making it easier to consolidate multiple accounts. For accounts with a balance of under $6,000, fees will be capped at 3% or $90 per six months.

People who have accounts with a balance of under $6,000 and have been inactive for more than 13 months, will have their account balances automatically transferred to the ATO who will then 'proactively' merge this balance with active accounts that have a balance over $6,000.

Automatic insurance cover will be banned for new accounts where the member is under age 25, for accounts under $6,000 and where accounts have been inactive for 13 months.

Self-managed super funds

From 1 July 2019, self-managed super funds (SMSFs) and small APRA funds (SAFs) will be able to increase the number of members from four to six. SMSFs who have clear audit reports for three consecutive years will be able to move to a three-year audit cycle.

Work test

From 1 July 2019, members aged between 65 and 74 who have super balances below $300,000 will be able to make voluntary contributions in the first year that they do not meet the work test requirements.

Social Security

Increase to the Pension Work Bonus

Under the Pension Work Bonus scheme if you receive the Age Pension or the Veterans' Affairs Pension you will be able to earn up to $300 per fortnight, up from the current level of $250 without it affecting your pension. The scheme will also be expanded to include the self-employed. This scheme will not apply to income associated with financial or real estate investments.

Expansion of the Pension Loans Scheme

Currently, the Government offers a reverse mortgage through the Pension Loans Scheme (PLS) to part pensioners and some nil-rate pensioners to allow them to 'top up' their Age Pension to the maximum rate.

From 1 July 2019, full-rate pensioners will be able to increase their income by up to $11,799 (singles) or $17,787 (couples) per year and the maximum allowable combined Age Pension and PLS income stream will be increased to 150% of the Age Pension rate.

The current PLS interest rate of 5.25% per year will apply to existing and new loans. The loan amounts will accumulate as a debt to the Government. The debt is repaid when the house is sold or it can be repaid any time before.

Carer Allowance — now means tested

The Government will introduce a $250,000 family income test threshold to the Carer Allowance payment. The Carer Allowance is currently not means tested.

Aged Care

An additional 14,000 high-level home care support packages will be introduced during the next four years to assist older Australians with tasks such as cooking and transportation.

Combine Residential Care and Home Care programs

From 1 July 2018, the Government will combine the Residential Care and Home Care programs. This will provide greater flexibility for people when choosing a mix of home care and residential aged care places.

Additional residential aged care places

The Government will release 13,500 residential aged care places and 775 short-term restorative care places.

Did you know the **age pension age** is increasing?

The age pension age is increasing to 67 which could have a significant impact on the retirement plans for many Australians.

The age you are eligible to receive age pension payments from the Government, depends on your date of birth. That is, the age pension age increases incrementally from age 65½, for those born between 1 July 1952 and 31 December 1953, to age 67 for those born after 1957.

What is your age pension age?

Date of birth between	Age eligible for age pension
1 July 1952 and 31 December 1953	65½
1 January 1954 and 30 June 1955	66
1 July 1955 and 31 December 1956	66½
From 1 January 1957	67

So, if you're turning 50 this year, ie born in 1968, and you're planning on retiring at age 60, you will need to use your super and other savings for **seven years** before you are eligible to apply for the age pension.

Why is the age pension age increasing?

In 1926 only 5 per cent of the Australian population was over age 65. Now approximately 15 per cent of Australians are over age 65[1]. And with people living longer, the number of years we're dependent on the Government to support us in retirement is longer.

In other words, our longevity is putting pressure on the Government's ability to fund a sustainable welfare safety net. But, this age increase could have serious consequences for people's retirement plans – forcing many who are fit and able, to work longer and save more for retirement.

How much are you likely to need each year in retirement?

The amount needed each year in retirement is different for everyone but the Association of Superannuation Funds of Australia (ASFA) estimates that a comfortable retirement can cost:

- **$44,011 pa** for a single person
- **$60,457 pa** for a couple[2].

This estimation doesn't take into consideration rent or mortgage repayments that you may still need to make.

What if you run out of money before reaching age pension age?

If you're unemployed and below the age pension age you can apply for Newstart payments from the Government. However, the Newstart allowance is subject to the Centrelink activity test as well as the income and assets tests.

Your super is an extremely important investment

Your super is an extremely important investment because it's likely to be your main source of income in retirement especially during the earlier stages. Super is also the most tax-effective way to save for your retirement, so it makes sense to make the most of the tax advantages. That is, your contributions are taxed at only 15 per cent[3] which can be much lower than most peoples' marginal tax rate which could be up to 47 per cent.

Your employer's compulsory 9.5 per cent superannuation guarantee contributions are unlikely to be enough to give you a comfortable retirement. But, if you start contributing more to your super now you can enjoy a more comfortable retirement later.

1 Australian Institute of Health and Welfare 'Older Australian's at a glance' April 2017

2 ASFA Retirement Standard

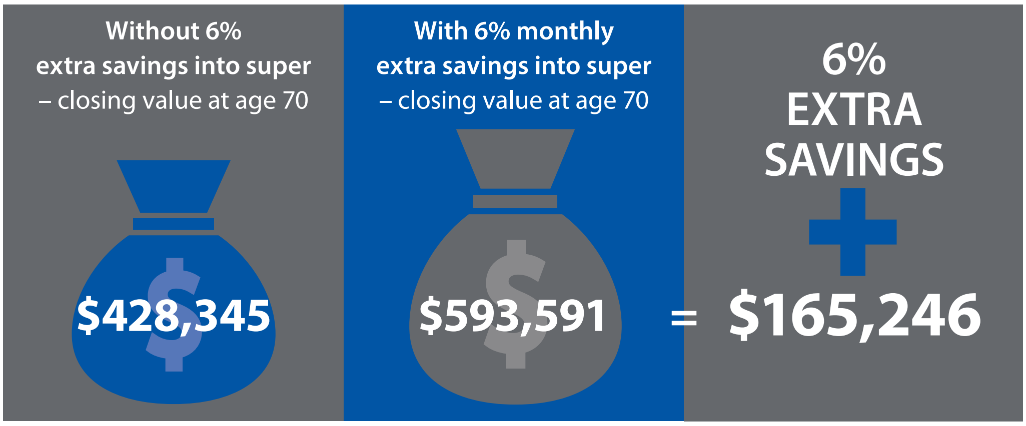
3 Note – if you earn $250,000 or more you may pay the higher rate of contributions tax of 30 per cent.

Case study

Projected benefits of putting extra savings into super

Age 40

Starting balance $100,000
Income of $100,000 per year



Source: Superannuation calculator – MoneySmart website www.moneysmart.gov.au

As shown in the above case study, putting an extra 6 per cent of your pre-tax income into your super each year could leave you significantly better off in retirement.

How to contribute more to super

There are several ways you can contribute more to super and take advantage of the tax benefits. Here are two:

1 **Salary sacrifice through your employer**

Most employers will allow you to nominate an amount to be contributed to super from your pre-tax income. This allows you to pay tax on the contribution as it enters your super fund at just 15 per cent[3], rather than your marginal tax rate.

2 **Make a personal contribution and claim a tax deduction**

Since 1 July 2017, you can make voluntary personal contributions to super and claim a tax deduction when you lodge your tax return for that year.

The reality is that many people will not be able to work right up to their age pension age, which makes funding the years between retirement and the age pension age extremely important.

Don't get caught short in retirement – contact us about your retirement plans and make the most of your super.

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