FEDERAL BUDGET 2018: TAX CUTS AND SUPER REFORMS

TAX CUTS WEREN'T THE ONLY MEASURE INTRODUCED LAST NIGHT THAT MAY AFFECT YOUR FINANCES, BUT THEY'RE LIKELY TO HAVE THE BIGGEST IMPACT LONG TERM, WRITES GAYLE BRYANT.

A three-part, seven-year personal tax plan was the centrepiece of the federal government's 2018 budget, which according to Treasurer Scott Morrison, was designed to deliver "what can be responsibly afforded while keeping the budget on track".

The tax plan included delivering immediate relief of $530 a year to 4.4 million Australians who earn between $48,000 and $90,000.

The three parts of the plan included relief for low and middle-income earners; reduction of bracket creep, and ensuring more Australians pay less tax by simplifying personal taxes.

There were also announcements around superannuation that dealt with fees, lost funds and younger workers.

Tax relief for low-to-middle income earners

From July 1, 2018, there will be a new tax offset for low and middle income earners:

- those earning less than $37,000 p.a. will have a tax offset of $200
- those on between $37,000 and $48,000 p.a. will receive between $200 and $530
- those earning between $48,000 and $90,000 p.a. will receive $530.
- for those on more than $90,000 p.a., the tax offset will reduce by 1.5¢ for every dollar above $90,000 until it cuts out at just over $125,000.

According to Morrison, for middle-income households with both parents working on average wages, "this will boost their 'kitchen table' budget by more than $1000 every year".

Because they are non-refundable tax offsets, taxpayers will only see the benefit at tax time next year when they can claim the offset to reduce their tax bill (any excess tax offset is not refunded).

Proposed tax threshold changes

Tax rate (%)	Current ($)	July 1, 2018 ($)	July 1, 2022 ($)	July 1, 2024 ($)
0	0–18,200	0–18,200	0–18,200	0–18,200
19	18,201–37,000	18,201–37,000	18,201–41,000	18,201–41,000
32.5	37,001–87,000	37,001–90,000	41,001–120,000	41,001–200,000
37	87,001–180,000	90,001–180,000	120,001–180,000	(no longer exists)
45	180,001–plus	180,001–plus	180,001–plus	200,001–plus

Source: Budget Papers

FOR MORE INFORMATION SPEAK TO YOUR ADVISER.

Reducing bracket creep

From the 2018–19 financial year, the income threshold for the 32.5 per cent tax bracket rises from $87,000 to $90,000. This move means that those earning more than $90,000 p.a. will enjoy a $135 per year tax saving and about 210,000 taxpayers earning between $87,000 and $90,000 won't be pushed into the 37¢ tax bracket.

This again changes from the 2022–23 financial year when the same threshold will rise from $90,000 to $120,000. The threshold for the 19 per cent tax bracket will rise from $37,000 to $41,000 at this time. These changes mean that workers with taxable incomes of between $41,000 and $90,000 will receive an annual tax saving of $540 a year. Those earning $120,000 p.a. would save $2,025 a year.

Abolishing the 37 per cent bracket

The Treasurer's tax plan culminates in the 2024–25 financial year where the 37 per cent tax bracket will be abolished entirely. This will reduce the number of tax brackets from five to four. The top marginal tax rate remains at 45¢ but the threshold it applies from rises from $180,001 to $200,001. This means all Australian taxpayers who are earning between $41,000 and $200,000 will only pay 32.5 per cent in the dollar from this time.

Superannuation

There were a few surprises in the budget around superannuation. First, from July 1, 2019, there will be a ban on exit fees on all super accounts and a 3 per cent annual passive fee cap on accounts that have balances below $6,000.

And now there is an excuse for not bothering to consolidate super funds: the Australian Taxation Office is going to do it for us. Morrison announced the ATO will proactively reunite people's lost super and have it sent to their active super accounts. Though some may like to get advice on desired funds before this auto-consolidation step is taken.

Another move likely to largely benefit younger super members is that from July 1, 2019, insurance within super will move from an opt-out model to an opt-in model for members aged under 25 and those with balances of less than $6000. The move will also apply to members who have not received a contribution in the previous 13 months and are inactive. (Inactive super accounts with balances less than $6,000 will be required to be transferred to the Australian Taxation Office.)

In the financial year following retirement, the superannuation work test will not apply to those aged 65 to 74 with a super balance below $300,000.

And in other areas, while the Medicare levy was initially going to be raised to 2.5 per cent from the 2019–20 financial year, Morrison announced it will now remain at 2 per cent.

Older Australians

Some of the biggest changes for older Australians in years were announced in this year's budget. In particular, the Treasurer said the government would spend $1.6 billion over four years to create 14,000 new home-care places, aimed at helping older Australians stay at home longer rather than moving into residential aged care.

There will also be extra money for aged-care services in regional Australia and more support for mental health services in aged-care facilities.

The government also said it would spend $11 million to expand the pensions loan scheme. The scheme involves a form of "reverse mortgage" that lets pensioners borrow against their own property. Pensioners will now be allowed to borrow an amount that is up to 150 per cent of the pension. This differs from the previous ruling where the amount was capped at the pension value.

Pensioners will also be able to work for longer as the government will increase the work pension bonus from $250 to $300 a fortnight. This will let pensioners earn up to $7,800 a year without their pensions being affected. The bonus will also be extended to self-employed individuals.

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