

Federal Budget 2018-19 Fast Facts

Individuals

The major change in the Federal Budget this year for individuals is the proposed changes to the personal tax rates, and the introduction of the Low and Middle Income Tax Offset (LMITO). Whilst the overall plan looks attractive, the major tax breaks will not be introduced for another five to seven years' time!

The government has not made any significant tax reforms in this budget. Accordingly, there are no changes to dividend imputation, capital gains tax, negative gearing or GST.

The budget has also deferred the start date of the Division 7A integrity measures to 1 July 2019. The measures, when enacted, will have a major impact on individuals and private businesses who use family trusts with corporate beneficiaries.

Main impacts to your business

- Major tax cuts will not be introduced until FY2023 and top marginal tax rate will not change until FY2025.
- Private family businesses will need to consider the impact of the reduction of the corporate tax rate and the associated changes to dividend imputation.
- SBE's opportunity to invest in capital expenditure between now and 30 June 2019 to obtain an immediate tax deduction for capital expenditure up to \$20,000.
- Whilst light on detail clients should not underestimate the potential impact of changes to Division 7A and UPE's, particularly the flow-on effects of paying out loans and the associated tax cost.

Maximising your opportunity

- Individuals approaching retirement can maximise opportunities to continue to contribute to superannuation up to age 74 without having to satisfy the 'work test'.
- Review existing SMSF arrangements and consider the merits of increasing member numbers to six.
- Take advantage of the relaxation of superannuation audit requirements by ensuring good compliance behaviour.
- Review of UPE balances exposed to Division 7A to prepare your business for the coming changes.

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Most important take outs

Changes for Individual Taxpayers

- Introduction of seven year personal income tax plan to end bracket creep by FY2025. The plan provides a small tax break for low and medium income earners. However, there is no tax benefit to high income earners in the short term. Major tax breaks will be introduced in FY2023 and FY2025. The details of the tax rate changes are summarised in the table below.

Other measures for Individual taxpayers

- Medicare Levy will remain at 2%.
- Government to provide more funding to the ATO to increase audit compliance activities for individual taxpayers and their tax agents.

Superannuation changes

- Relief from the 'work test' for persons aged 65-74 who make voluntary contributions with low superannuation balances.
- Increasing the number of members in SMSF's and small APRA funds from four to six.

- SMSF's that have a good compliance record will only have to be audited every three years.
- Employees with multiple employers can opt for superannuation contributions not to be made to avoid the Excess Contribution Tax.
- Introducing a cap on passive fees on accounts balances below \$6,000, and a ban on exit fees on all superannuation accounts.
- Members aged under 25 years or members with a low balance can choose not to have life insurance.

Business taxpayer changes

- Further extending the \$20,000 immediate asset write-off for Small Business Entities (SBE), where aggregated turnover is less than \$10m to 30 June 2019.
- Division 7A integrity rule – ensuring unpaid present entitlements (UPE's) will be taxed as dividends unless structured as Division 7A complying loans from 1 July 2019.

	Date of effect	Measure	Tax benefit
Step 1			
Low and Middle Income Tax Offset (LMITO)	1 July 2018 – 30 June 2022	Income < \$37,000	\$200
		Income \$37,000 to \$90,000	Increases up to \$530
Step 2			
Increase to marginal tax rates	From 1 July 2019	Increase tax income threshold from \$87k to \$90k for tax bracket 32.5%	\$135
Increase marginal tax rates	From 1 July 2022	Increase tax income threshold rate of 19% from \$37,000 to \$41,000	\$540
Increase marginal tax rates	From 1 July 2022	Increase tax income threshold rate of 32.5% from \$90,000 to \$120,000	\$1,350
LMITO	From 1 July 2022	Income from \$37,000 to \$41,000 (phased out up to \$66,667)	Increase LMITO from \$445 to \$645
Step 3			
Increase marginal tax rate	From 1 July 2024	Income tax rate of 32.5% will apply for income between \$41,000 to \$200,000	\$8,016

